

ChromaDex Corp.
Form 10-Q
August 09, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

Commission File Number: 001-37752

CHROMADEX CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware 26-2940963
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

10005 Muirlands Blvd. Suite G, Irvine, California 92618
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (949) 419-0288

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer, smaller reporting company or emerging growth company. See definition of "large accelerated filer, accelerated filer, smaller reporting company and emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer
Non-accelerated filer ___ Smaller reporting company ___
(Do not check if smaller reporting company) Emerging growth company ___

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No

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As of August 8, 2018 there were 55,055,435 shares of the registrant's common stock issued and outstanding.

CHROMADDEX CORPORATION
QUARTERLY REPORT ON FORM 10-Q
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PART I – FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

June 30, 2018 and December 30, 2017

(In thousands, except per share data)

	June 30, 2018	December 30, 2017
Assets		
Current Assets		
Cash	\$33,389	\$45,389
Trade receivables, net of allowances of \$0.5 million and \$0.7 million, respectively;		
Receivables from Related Party: \$0.9 million and \$1.5 million, respectively	5,130	5,338
Contract assets	62	-
Receivable held at escrow	751	-
Inventories	6,526	5,796
Prepaid expenses and other assets	627	655
Total current assets	46,485	57,178
Leasehold Improvements and Equipment, net	3,878	2,872
Deposits	269	272
Receivable Held at Escrow	-	750
Intangible Assets, net	1,536	1,652
Total assets	\$52,168	\$62,724
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$6,757	\$3,719
Accrued expenses	3,684	3,645
Current maturities of capital lease obligations	191	196
Contract liabilities and customer deposits	185	314
Deferred rent, current	139	114

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Due to officer	-	100
Total current liabilities	10,956	8,088
Capital Lease Obligations, Less Current Maturities	219	310
Deferred Rent, Less Current	493	492
Total liabilities	11,668	8,890
Commitments and Contingencies		
Stockholders' Equity		
Common stock, \$.001 par value; authorized 150,000 shares; issued and outstanding June 30, 2018 54,870 shares and December 30, 2017 54,697 shares	55	55
Additional paid-in capital	113,375	110,380
Accumulated deficit	(72,930)	(56,601)
Total stockholders' equity	40,500	53,834
Total liabilities and stockholders' equity	\$52,168	\$62,724

See Notes to Consolidated Financial Statements.

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

For the Three Month Periods Ended June 30, 2018 and July 1, 2017

(In thousands, except per share data)

	June 30, 2018	July 1, 2017
Sales, net	\$7,803	\$4,218
Cost of sales	3,957	2,109
Gross profit	3,846	2,109
Operating expenses:		
Sales and marketing	3,773	550
Research and development	1,414	850
General and administrative	6,596	2,613
Other	-	746
Operating expenses	11,783	4,759
Operating loss	(7,937)	(2,650)
Nonoperating expense:		
Interest expense, net	(48)	(36)
Other	(65)	-
Nonoperating expenses	(113)	(36)
Loss from continuing operations	(8,050)	(2,686)
Loss from discontinued operations	-	(78)
Net loss	\$(8,050)	\$(2,764)
Basic and diluted loss per common share:		
Loss from continuing operations	\$(0.15)	\$(0.06)
Loss from discontinued operations	\$-	\$(0.01)
Basic and diluted loss per common share	\$(0.15)	\$(0.07)
Basic and diluted weighted average common shares outstanding	54,892	42,121

See Notes to Consolidated Financial Statements.

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Operations
 For the Six Month Periods Ended June 30, 2018 and July 1, 2017
 (In thousands, except per share data)

	June 30, 2018	July 1, 2017
Sales, net	\$14,370	\$7,586
Cost of sales	7,387	3,859
Gross profit	6,983	3,727
Operating expenses:		
Sales and marketing	7,042	955
Research and development	2,853	1,514
General and administrative	13,424	4,935
Other	-	746
Operating expenses	23,319	8,150
Operating loss	(16,336)	(4,423)
Nonoperating expense:		
Interest expense, net	(92)	(64)
Other	(65)	-
Nonoperating expenses	(157)	(64)
Loss from continuing operations	(16,493)	(4,487)
Loss from discontinued operations	-	(206)
Net loss	\$(16,493)	\$(4,693)
Basic and diluted loss per common share:		
Loss from continuing operations	\$(0.30)	\$(0.11)
Loss from discontinued operations	\$-	\$(0.01)
Basic and diluted loss per common share	\$(0.30)	\$(0.12)
Basic and diluted weighted average common shares outstanding	54,875	40,076

See Notes to Consolidated Financial Statements.

ChromaDex Corporation and Subsidiaries
 Condensed Consolidated Statement of Stockholders' Equity
 For the Six Month Period Ended June 30, 2018
 (In thousands)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, December 30, 2017	54,697	\$55	\$110,380	\$(56,601)	53,834
Adjustment to retained earnings: cumulative effect of initially applying ASC 606	-	-	-	164	164
Exercise of stock options	57	-	255	-	255
Repurchase of common stock	(75)	-	(404)	-	(404)
Vested restricted stock	2	-	-	-	-
Share-based compensation	-	-	1,258	-	1,258
Net loss	-	-	-	(8,443)	(8,443)
Balance, March 31, 2018	54,681	\$55	\$111,489	\$(64,880)	\$46,664
Exercise of stock options	22	-	75	-	75
Share-based compensation	167	-	1,811	-	1,811
Net loss	-	-	-	(8,050)	(8,050)
Balance, June 30, 2018	54,870	\$55	\$113,375	\$(72,930)	\$40,500

See Notes to Consolidated Financial Statements.

ChromaDex Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows
 For the Six Month Periods Ended June 30, 2018 and July 1, 2017
 (In thousands)

	June 30, 2018	July 1, 2017
Cash Flows From Operating Activities		
Net loss	\$(16,493)	\$(4,693)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of leasehold improvements and equipment	267	264
Amortization of intangibles	116	90
Share-based compensation expense	3,069	720
Allowance for doubtful trade receivables	(127)	(344)
Loss from disposal of equipment	1	1
Non-cash financing costs	70	57
Other Non-cash expense	65	-
Changes in operating assets and liabilities:		
Trade receivables	335	1,628
Contract assets	(7)	-
Inventories	(730)	179
Prepaid expenses and other assets	(85)	(555)
Accounts payable	3,038	(2,950)
Accrued expenses	39	(62)
Customer deposits and other	(21)	115
Deferred rent	26	20
Due to officer	(100)	(32)
Net cash used in operating activities	(10,537)	(5,562)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(1,274)	(295)
Purchases of intangible assets	-	(184)
Net cash used in investing activities	(1,274)	(479)
Cash Flows From Financing Activities		
Proceeds from issuance of common stock, net of issuance costs	-	18,706
Proceeds from exercise of stock options	330	12
Repurchase of common stock	(404)	-
Payment of debt issuance costs	(19)	(42)

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Principal payments on capital leases	(96)	(138)
Net cash (used in) provided by financing activities	(189)	18,538
Net (decrease) increase in cash	(12,000)	12,497
Cash Beginning of Period	45,389	1,642
Cash Ending of Period	\$33,389	\$14,139
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$22	\$27
Supplemental Schedule of Noncash Operating Activity		
Adjustment to retained earnings - cumulative effect of initially applying ASC 606	\$164	\$-
Supplemental Schedule of Noncash Investing Activity		
Noncash consideration transferred for the acquisition of Healthspan Research LLC	\$-	\$1,187
Capital lease obligation incurred for the purchase of equipment	\$-	\$232
Retirement of fully depreciated equipment - cost	\$-	\$56
Retirement of fully depreciated equipment - accumulated depreciation	\$-	\$(56)

See Notes to Consolidated Financial Statements.

Note 1. Interim Financial Statements

The accompanying financial statements of ChromaDex Corporation and its wholly owned subsidiaries, ChromaDex, Inc., Healthspan Research, LLC and ChromaDex Analytics, Inc. (collectively referred to herein as “ChromaDex” or the “Company” or, in the first person as “we”, “us” and “our”) include all adjustments, consisting of normal recurring adjustments and accruals, that, in the opinion of the management of the Company, are necessary for a fair presentation of the Company’s financial position as of June 30, 2018 and results of operations and cash flows for the three and six months ended June 30, 2018 and July 1, 2017. These unaudited interim financial statements should be read in conjunction with the Company’s audited financial statements and the notes thereto for the year ended December 30, 2017 appearing in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “Commission”) on March 15, 2018. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results to be achieved for the full year ending on December 31, 2018. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

The balance sheet at December 30, 2017 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Note 2. Nature of Business and Liquidity

Nature of business: The Company is an integrated, global nutraceutical company devoted to improving the way people age. ChromaDex scientists partner with leading universities and research institutions worldwide to uncover the full potential of NAD and identify and develop novel, science-based ingredients. Its flagship ingredient, NIAGEN® nicotinamide riboside, sold directly to consumers as TRU NIAGEN®, is backed with clinical and scientific research, as well as extensive intellectual property protection.

Liquidity: The Company's net cash outflow from operating activities was approximately \$10.5 million for the six-month period ended June 30, 2018. As of June 30, 2018, cash and cash equivalents totaled approximately \$33.4 million.

The Company anticipates that its current cash, cash equivalents and cash to be generated from operations will be sufficient to meet its projected operating plans through at least August 10, 2019. The Company may, however, seek additional capital prior to August 10, 2019, both to meet its projected operating plans after August 10, 2019 and/or to fund its longer term strategic objectives.

Note 3. Significant Accounting Policies

Basis of presentation: The financial statements and accompanying notes have been prepared on a consolidated basis and reflect the consolidated financial position of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated from these financial statements. The Company’s fiscal year ends on December 31.

Recently adopted accounting standards: Effective the first day of our fiscal year 2018, the Company adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (“ASC 606”). ASC 606 supersedes nearly all existing revenue recognition guidance under U.S. Generally Accepted Accounting Principles (“GAAP”). The core principle of ASC 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services.

ASC 606 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

The Company adopted ASC 606 using the modified retrospective transition method. Under this method, the Company elected to apply the modified retrospective method to contracts that are not complete as of the first day of our fiscal year 2018. The adoption of ASC 606 resulted in an adjustment to opening retained earnings of \$164,000. See Note 8, Contract Assets and Contract Liabilities for additional disclosure regarding the opening balance adjustment.

For the six-month period ended June 30, 2018, approximately \$13.8 million of the Company's total revenue of \$14.4 million, or 96% of the total revenue, was as a result of shipping physical goods to the customers. For such revenue streams, the performance obligations are typically satisfied upon shipment of physical goods. Typical payment terms for such revenue streams are upon shipment or net 30 to 60 days. We require customers that are not creditworthy to make advance payments prior to shipment. The Company is taking the practical expedient on not adjusting the promised amount of consideration for the effects of a significant financing component, since the Company expects the customer to pay for the transferred goods within one year. There are obligations for the Company to accept returns and provide refunds for the goods that are shipped, if the customer claims that the Company has not fully fulfilled the performance obligations. Returns, refunds and allowances related to sales including a reserve for estimated variable consideration for the returns, refunds and allowances are recorded as reduction of revenue. The Company uses historical rates when estimating returns, refunds and allowances. The Company also elected to account for shipping and handling activities performed as cost of sales under a fulfillment cost and any fee received for shipping and handling as part of the transaction price and recognize revenue when control of the good transfers. The related fulfillment costs are accrued at the time of revenue recognition.

The Company also has revenue streams for providing consulting services to its clients. For the six-month period ended June 30, 2018, our revenue from these streams was approximately \$0.6 million, or 4% of the total revenue. For these consulting services, the performance obligations are typically satisfied over time as the consulting services are performed. Payment terms for these projects vary based on the nature of the projects, from advance payment at the beginning of the project to net 30 days from the completion of the project. The Company typically requires advance payments from customers for large-scale consulting projects that have a contract duration of 30 days or longer. The original expected duration of these contracts are typically one year or less. As such, the Company is applying an optional exemption from ASC 606 to not make the disclosures related to the remaining performance obligations. The Company is also taking the practical expedient on not adjusting the promised amount of consideration for the effects of a significant financing component, since the Company expects the customer to pay for the transferred services within one year. If contracts are terminated prior to the completion, the Company typically has a right to bill the customer for all services that have been performed through the termination date.

These consulting projects typically have one common performance obligation for our clients, thus the Company typically does not allocate the transaction price over many performance obligations. Some of these consulting projects require measurement of the progress toward complete satisfaction of the performance obligation. The Company uses a cost-to-cost method to measure such progress, which is an input method that recognizes revenue on the bases of direct measurements for the costs incurred to date in relation to the total estimated costs to complete the performance obligation. Any costs that do not depict the Company's performance in transferring control of the consulting services to the customer have been excluded.

Recently issued accounting standards: In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, which simplifies the accounting for share-based payments granted to non-employees for goods and services. Under the ASU 2018-07, most of the guidance on such payments to non-employees would be aligned with the requirements for share-based payments granted to employees. For public business entities, the amendments in ASU 2018-07 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are currently evaluating the impact of our pending adoption of ASU 2018-07 on our consolidated financial statements.

Note 4. Earnings Per Share Applicable to Common Stockholders

The following table sets forth the computations of earnings per share amounts applicable to common stockholders for the three and six months ended June 30, 2018 and July 1, 2017:

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
(In thousands, except per share data)				
Net loss	\$(8,050)	\$(2,764)	\$(16,493)	\$(4,693)
Basic and diluted loss per common share	\$(0.15)	\$(0.07)	\$(0.30)	\$(0.12)
Basic and diluted weighted average common shares outstanding (1):	54,892	42,121	54,875	40,076
Potentially dilutive securities (2):				
Stock options	8,559	5,965	8,559	5,965
Warrants	470	470	470	470

(1) Includes approximately 0.2 million weighted average nonvested shares of restricted for the three and six month periods ending June 30, 2018, respectively, and approximately 0.5 million nonvested shares of restricted stock for the three and six month periods ending July 1, 2017, respectively. These shares are participating securities that feature voting and dividend rights.

(2) Excluded from the computation of loss per share as their impact is antidilutive.

Note 5. Line of Credit

On November 4, 2016, the Company entered into a business financing agreement (“Financing Agreement”) with Western Alliance Bank (“Western Alliance”), in order to establish a formula based revolving credit line pursuant to which the Company may borrow an aggregate principal amount of up to \$5,000,000, subject to the terms and conditions of the Financing Agreement. In June 2018, the Company notified Western Alliance that it did not intend to draw from the line of credit established by the Financing Agreement. The Company previously did not have any

outstanding loan payable from this line of credit arrangement.

The Company incurred debt issuance costs of approximately \$272,000 in connection with this line of credit arrangement and had an unamortized balance of approximately \$65,000 as of the termination date. For the line of credit arrangement, the Company elected a policy to keep the debt issuance costs as an asset, regardless of whether an amount is drawn. The unamortized deferred asset was expensed immediately on the termination date as other non-operating expense.

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Note 6. Related Party Transactions

Sale of consumer products

	Net sales Three months ended June 30, 2018	Net sales Six months ended June 30, 2018	Net sales Three months ended July 1, 2017	Net sales Six months ended July 1, 2017	Trade receivable at June 30, 2018
Customer G*	\$0.3 million	\$1.1 million	-	-	\$0.9 million
Customer H*	-	\$0.4 million	-	-	-
Total	\$0.3 million	\$1.5 million	-	-	\$0.9 million

*Customer G & H are related parties through common ownership of an enterprise that owns beneficially more than 10% of the common stock of the Company.

Note 7. Inventories

The amounts of major classes of inventory as of June 30, 2018 and December 30, 2017 are as follows:

(In thousands)	June 30, Dec. 30, 2018 2017	
Bulk ingredients	\$2,048	\$4,159
Reference standards	1,023	1,027
Consumer Products - Finished Goods	1,686	503
Consumer Products - Work in Process	1,917	249
	6,674	5,938
Less valuation allowance	(148)	(142)
	\$6,526	\$5,796

Note 8. Contract Assets and Contract Liabilities

Our contract assets consist of unbilled amounts typically resulting from sales under contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer. Our contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue.

Net contract assets (liabilities) consisted of the following:

(In thousands)	Dec. 30, 2017	Opening Balance Adjustment	FY 2018 Opening Balance	Reductions (1)	Additions (2)	June 30, 2018
Contract Assets	\$-	\$56	\$56	\$(202)	\$208	\$62
Contract Liabilities - Open Projects (3)	186	(108)	78	(69)	64	73
Contract Liabilities - Other Customer Deposits (4)	128	-	128	(45)	29	112
Net Contract Assets (Liabilities)	\$(314)	\$164	\$(150)	\$(88)	\$115	\$(123)

(1) For contract assets, the amount represents amount billed to the customer.

For contract liabilities, the amount represents reductions for revenue recognized.

(2) For contract assets, the amount represents revenue recognized during the period using the cost-to-cost method.

For contract liabilities, the amount represents advance payments received during the period.

(3) Contract liabilities from ongoing consulting projects.

(4) Other customer deposits include payments received for orders not fulfilled and other advance payments.

In the three and six months ended June 30, 2018, we recognized revenue of approximately \$35,000 and \$80,000 related to our adjusted contract liabilities at the beginning of the fiscal year 2018.

Note 9. Employee Share-Based Compensation

Stock Option Plans

On June 20, 2017, the stockholders of the Company approved the ChromaDex Corporation 2017 Equity Incentive Plan (the "2017 Plan"). The Company's Board of Directors amended the 2017 Plan in January 2018 to increase the number of shares reserved for issuance under the 2017 plan by 500,000 shares (the "Inducement Shares"). On June 22, 2018, the stockholders of the Company approved an increase of 6,000,000 in the number of shares reserved for issuance under the 2017 Plan. The 2017 Plan is the successor to the ChromaDex Corporation Second Amended and Restated 2007 Equity Incentive Plan (the "2007 Plan"). Under the 2017 Plan, the Company is authorized to issue stock options that total no more than the sum of (i) 9,000,000 new shares, (ii) approximately 384,000 unallocated shares remaining available for the grant of new awards under the 2007 Plan, (iii) any returning shares from the 2007 Plan or the 2017 Plan, such as forfeited, cancelled, or expired shares and (iv) the 500,000 Inducement Shares.

Under both 2007 Plan and 2017 Plan, the total number of shares the Company may grant, excluding returned shares, was approximately 17.3 million shares. The remaining amount available for issuance under the 2017 Plan totaled

approximately 5.7 million shares at June 30, 2018.

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Service Period Based Stock Options

The following table summarizes activity of service period based stock options granted to employees at June 30, 2018 and changes during the six months then ended (in thousands except per share data and remaining contractual term):

	Weighted Average			
	Number of	Exercise	Remaining	Aggregate
	Shares	Price	Contractual	Fair
			Term (Years)	Intrinsic
				Value
				Value
Outstanding at Dec. 30, 2017	4,451	\$3.46	6.7	
Options Granted	2,457	4.55	10.0	\$2.93
Options Classification from Employee to Non-Employee	(168)	4.17		
Options Exercised	(77)	4.22		\$69
Options Expired	(175)	4.50		
Options Forfeited	(111)	4.28		
Outstanding at June 30, 2018	6,377	\$3.82	7.8	\$2,292*
Exercisable at June 30, 2018	3,001	\$3.41	5.7	\$1,810*

*The aggregate intrinsic values in the table above are based on the Company's stock price of \$3.71, which is the closing price of the Company's stock on the last day of business for the period ended June 30, 2018.

The fair value of the Company's stock options was estimated at the date of grant using the Black-Scholes option pricing model. The table below outlines the weighted average assumptions for options granted to employees during the six months ended June 30, 2018.

Six Months Ended June 30, 2018

Expected term 6 years

Expected volatility	69% - 70%
Expected dividends	0%
Risk-free rate	2% - 3%

As of June 30, 2018, there was approximately \$10.7 million of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the plans for employee stock options. That cost is expected to be recognized over a weighted average period of 2.4 years.

Performance Stock Award

On June 22, 2018, the Compensation Committee of the Board of Directors of the Company approved a grant of 166,667 shares of fully-vested restricted stock to Robert Fried, the Company's Chief Executive Officer. The shares were granted pursuant to his employment agreement, which provided for the restricted stock grant upon the achievement of certain performance goals. The expense for the awarded shares was approximately \$0.6 million and was recognized during the second quarter of 2018.

Employee Share-Based Compensation

The Company recognized compensation expense of approximately \$1.8 million and \$3.0 million in the statement of operations for the three and six months ended June 30, 2018, respectively, and approximately \$0.4 million and \$0.7 million for the three and six months ended July 1, 2017, respectively.

Note 10. Business Segments

The Company has the following three reportable segments for the three- and six-month periods ended June 30, 2018:

Consumer products segment: provides finished dietary supplement products that contain the Company's proprietary ingredients directly to consumers as well as to distributors.

Ingredients segment: develops and commercializes proprietary-based ingredient technologies and supplies these ingredients as raw materials to the manufacturers of consumer products in various industries including the nutritional supplement, food, beverage and animal health industries.

Core standards and contract services segment: includes (i) supply of phytochemical reference standards, (ii) scientific and regulatory consulting and (iii) other research and development services.

The "Corporate and other" classification includes corporate items not allocated by the Company to each reportable segment. Further, there are no intersegment sales that require elimination. The Company evaluates performance and allocates resources based on reviewing gross margin by reportable segment. The discontinued operations are not included in following statement of operations for business segments.

Three months ended	Consumer		Core Standards and		
June 30, 2018	Products	Ingredients	Contract Services	Corporate	
(In thousands)	segment	segment	segment	and other	Total
Net sales	\$3,732	\$2,879	\$1,192	\$-	\$7,803
Cost of sales	1,570	1,536	851	-	3,957
Gross profit	2,162	1,343	341	-	3,846
Operating expenses:					
Sales and marketing	3,357	256	160	-	3,773
Research and development	848	566	-	-	1,414
General and administrative	-	-	-	6,596	6,596
Operating expenses	4,205	822	160	6,596	11,783
Operating income (loss)	\$(2,043)	\$521	\$181	\$(6,596)	\$(7,937)

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Three months ended	Consumer		Core Standards and		
July 1, 2017	Products	Ingredients	Contract Services	Corporate	
(In thousands)	segment	segment	segment	and other	Total
Net sales	\$142	\$2,863	\$1,213	\$-	\$4,218
Cost of sales	38	1,320	751	-	2,109
Gross profit	104	1,543	462	-	2,109
Operating expenses:					
Sales and marketing	181	273	96	-	550
Research and development	51	799	-	-	850
General and administrative	-	-	-	2,613	2,613
Other	-	746	-	-	746
Operating expenses	232	1,818	96	2,613	4,759
Operating income (loss)	\$(128)	\$(275)	\$366	\$(2,613)	\$(2,650)
Six months ended	Consumer		Core Standards and		
June 30, 2018	Products	Ingredients	Contract Services	Corporate	
(In thousands)	segment	segment	segment	and other	Total
Net sales	\$6,763	\$5,247	\$2,360	\$-	\$14,370
Cost of sales	2,678	3,033	1,676	-	7,387
Gross profit	4,085	2,214	684	-	6,983
Operating expenses:					
Sales and marketing	6,084	572	386	-	7,042
Research and development	1,677	1,176	-	-	2,853
General and administrative	-	-	-	13,424	13,424
Operating expenses	7,761	1,748	386	13,424	23,319

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Operating income (loss)	\$(3,676)	\$466	\$298	\$(13,424)	\$(16,336)
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Six months ended	Consumer		Core Standards and		
July 1, 2017	Products	Ingredients	Contract Services	Corporate	
(In thousands)	segment	segment	segment	and other	Total
Net sales	\$156	\$4,933	\$2,497	\$-	\$7,586
Cost of sales	41	2,231	1,587	-	3,859
Gross profit	115	2,702	910	-	3,727
Operating expenses:					
Sales and marketing	190	569	196	-	955
Research and development	51	1,463	-	-	1,514
General and administrative	-	-	-	4,935	4,935
Other	-	746	-	-	746
Operating expenses	241	2,778	196	4,935	8,150
Operating income (loss)	\$(126)	\$(76)	\$714	\$(4,935)	\$(4,423)

	Consumer		Core Standards and		
At June 30, 2018	Products	Ingredients	Contract Services	Corporate	
(In thousands)	segment	segment	segment	and other	Total
Total assets	\$6,144	\$5,736	\$1,388	\$38,900	\$52,168

	Consumer		Core Standards and		
At December 30, 2017	Products	Ingredients	Contract Services	Corporate	
(In thousands)					

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	segment	segment	segment	and other	Total
Total assets	\$3,399	\$9,742	\$2,559	\$47,024	\$62,724

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Disaggregation of revenue

We disaggregate our revenue from contracts with customers by type of goods or services for each of our segments, as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors. See details in the tables below.

Three Months Ended June 30, 2018 (In thousands)	Consumer Products Segment	Ingredients Segment	Core Standards and Contract Services Segment	Total
TRU NIAGEN®, Consumer Product	\$3,732	\$-	\$-	\$3,732
NIAGEN® Ingredient	-	1,934	-	1,934
Subtotal NIAGEN Related	\$3,732	\$1,934	\$-	\$5,666
Other Ingredients	-	945	-	945
Reference Standards	-	-	820	820
Consulting and Other	-	-	372	372
Subtotal Other Goods and Services	\$-	\$945	\$1,192	\$2,137
Total Net Sales	\$3,732	\$2,879	\$1,192	\$7,803
Three Months Ended July 1, 2017 (In thousands)	Consumer Products Segment	Ingredients Segment	Core Standards and Contract Services Segment	Total
TRU NIAGEN®, Consumer Product	\$142	\$-	\$-	\$142
NIAGEN® Ingredient	-	1,973	-	1,973
Subtotal NIAGEN Related	\$142	\$1,973	\$-	\$2,115
Other Ingredients	-	890	-	890
Reference Standards	-	-	767	767
Consulting and Other	-	-	446	446
Subtotal Other Goods and Services	\$-	\$890	\$1,213	\$2,103
Total Net Sales	\$142	\$2,863	\$1,213	\$4,218

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Six Months Ended June 30, 2018 (In thousands)	Consumer Products Segment	Ingredients Segment	Core Standards and Contract Services Segment	Total
TRU NIAGEN®, Consumer Product	\$6,763	\$-	\$-	\$6,763
NIAGEN® Ingredient	-	3,197	-	3,197
Subtotal NIAGEN Related	\$6,763	\$3,197	\$-	\$9,960
Other Ingredients	-	2,050	-	2,050
Reference Standards	-	-	1,739	1,739
Consulting and Other	-	-	621	621
Subtotal Other Goods and Services	\$-	\$2,050	\$2,360	\$4,410
Total Net Sales	\$6,763	\$5,247	\$2,360	\$14,370

Six Months Ended July 1, 2017 (In thousands)	Consumer Products Segment	Ingredients Segment	Core Standards and Contract Services Segment	Total
TRU NIAGEN®, Consumer Product	\$156	\$-	\$-	\$156
NIAGEN® Ingredient	-	2,941	-	2,941
Subtotal NIAGEN Related	\$156	\$2,941	\$-	\$3,097
Other Ingredients	-	1,992	-	1,992
Reference Standards	-	-	1,600	1,600
Consulting and Other	-	-	897	897
Subtotal Other Goods and Services	\$-	\$1,992	\$2,497	\$4,489
Total Net Sales	\$156	\$4,933	\$2,497	\$7,586

Disclosure of major customers

Major customers who accounted for more than 10% of the Company's total sales were as follows:

Major Customers	Three months ended		Six months ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017

Customer F	*	15.0%	*	10.1%
Customer K	12.3%	*	*	*
Customer I	11.5%	*	11.4%	*

* Represents less than 10%.

Major customers who accounted for more than 10% of the Company's total trade receivables were as follows:

Major Customers	Percentage of the Company's Total Trade Receivables	
	At June 30, 2018	At December 30, 2017
Customer G - Related Party	17.2%	18.1%
Customer I	11.9%	*
Customer D	*	13.4%
Customer C (1)	43.5%	41.8%

* Represents less than 10%.

(1) There is ongoing litigation with Customer C

Note 11. Commitments and Contingencies

Legal proceedings - Elysium Health, LLC

(A) California Action

On December 29, 2016, ChromaDex, Inc. filed a complaint in the United States District Court for the Central District of California, naming Elysium Health, Inc. (together with Elysium Health, LLC, "Elysium") as defendant (the "Complaint"). On January 25, 2017, Elysium filed an answer and counterclaims in response to the Complaint (the "Counterclaim" and together with the Complaint, the "California Action"). Over the course of the California Action, the parties have each filed amended pleadings several times and have each engaged in several rounds of motions to dismiss and one round of motion for judgment on the pleadings with respect to various claims. Most recently, on June 29, 2018, ChromaDex filed a fourth amended complaint, which Elysium moved to dismiss on July 9, 2018. The court denied in part and granted in part Elysium's motion on July 27, 2018.

Following the court's July 27, 2018 order, the claims that ChromaDex, Inc. presently asserts in the California Action, among other allegations, are that (i) Elysium breached the Supply Agreement, dated June 26, 2014, by and between ChromaDex, Inc. and Elysium (the "pTeroPure® Supply Agreement"), by failing to make payments to ChromaDex, Inc. for purchases of pTeroPure® and by improper disclosure of confidential ChromaDex, Inc. information pursuant to the pTeroPure® Supply Agreement, (ii) Elysium breached the Supply Agreement, dated February 3, 2014, by and between ChromaDex, Inc. and Elysium, as amended (the "NIAGEN® Supply Agreement"), by failing to make payments to ChromaDex, Inc. for purchases of NIAGEN® and by improper disclosure of confidential ChromaDex, Inc. information pursuant to the NIAGEN® Supply Agreement, and (iii) Elysium willfully and maliciously misappropriated ChromaDex, Inc. trade secrets concerning its ingredient sales business under both the California Uniform Trade Secrets Act and the Federal Defend Trade Secrets Act. ChromaDex, Inc. is seeking damages and interest for Elysium's alleged breaches of the NIAGEN® Supply Agreement and pTeroPure® Supply Agreement and compensatory damages and interest, punitive damages, injunctive relief, and attorney's fees for Elysium's alleged

willful and malicious misappropriation of ChromaDex, Inc.'s trade secrets. Elysium's answer to ChromaDex, Inc.'s fourth amended complaint is due on August 9, 2018.

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Among other allegations, the claims that Elysium presently alleges in the California Action are that (i) ChromaDex, Inc. breached the NIAGEN® Supply Agreement by not issuing certain refunds or credits to Elysium, by not supplying NIAGEN® manufactured according to the defined standard, and by failing to provide Elysium with information concerning the quality and identity of NIAGEN® pursuant to the NIAGEN® Supply Agreement, (ii) ChromaDex, Inc. breached the implied covenant of good faith and fair dealing pursuant to the NIAGEN® Supply Agreement, (iii) ChromaDex, Inc. fraudulently induced Elysium into entering into the Trademark License and Royalty Agreement, dated February 3, 2014, by and between ChromaDex, Inc. and Elysium (the “License Agreement”), and (iv) ChromaDex, Inc.’s conduct constitutes misuse of its patent rights. Elysium is seeking damages for ChromaDex, Inc.’s alleged breaches of the NIAGEN® Supply Agreement and pTeroPure® Supply Agreement, and compensatory damages, punitive damages, and/or rescission of the License Agreement and restitution of any royalty payments conveyed by Elysium pursuant to the License Agreement, and a declaratory judgment that ChromaDex, Inc. has engaged in patent misuse. ChromaDex, Inc. answered Elysium’s present allegations on April 13, 2018. The parties are currently in discovery.

(B) Patent Trial

On July 17, 2017, Elysium filed petitions with the U.S. Patent and Trademark Office for inter partes review of U.S. Patents 8,197,807 (the “’807 Patent”) and 8,383,086 (the “’086 Patent”), patents to which ChromaDex, Inc. is the exclusive licensee. The Patent Trial and Appeal Board (“PTAB”) denied institution of the inter partes review for the ’807 Patent on January 18, 2018. On January 29, 2018, the PTAB granted institution of the inter partes review as to claims 1, 3, 4, and 5 and denied institution as to claim 2 of the ’086 Patent. Based upon a recent U.S. Supreme Court decision, and solely on a procedural basis, the PTAB has now included claim 2 in the trial of the inter partes review. That trial is scheduled for October 2, 2018.

(C) Southern District of New York Complaint

On September 27, 2017, Elysium Health Inc. (“Elysium Health”) filed a complaint in the United States District Court for the Southern District of New York, against ChromaDex, Inc. (the “SDNY Complaint”). Elysium Health alleges in the SDNY Complaint that ChromaDex, Inc. made false and misleading statements in a citizen petition to the Food and Drug Administration it filed on or about August 18, 2017. Among other allegations, Elysium Health avers that the citizen petition made Elysium Health’s product appear dangerous, while casting ChromaDex, Inc.’s own product as safe. The SDNY Complaint asserts four claims for relief: (i) false advertising under the Lanham Act, 15 U.S.C. § 1125(a); (ii) trade libel; (iii) deceptive business practices under New York General Business Law § 349; and (iv) tortious interference with prospective economic relations. ChromaDex, Inc. denies the claims in the SDNY Complaint and intends to defend against them vigorously. On October 26, 2017, ChromaDex, Inc. moved to dismiss the SDNY Complaint on the grounds that, inter alia, its statements in the citizen petition are immune from liability under the Noerr-Pennington Doctrine, the litigation privilege, and New York’s Anti-SLAPP statute, and that the SDNY Complaint failed to state a claim. Elysium Health opposed the motion on November 2, 2017. ChromaDex, Inc. filed its reply on November 9, 2017. The motion is currently pending.

On October 26, 2017, ChromaDex, Inc. filed a complaint in the United States District Court for the Southern District of New York against Elysium Health (the “ChromaDex SDNY Complaint”). ChromaDex alleges that Elysium Health made material false and misleading statements to consumers in the promotion, marketing, and sale of its health supplement product, Basis, and asserts five claims for relief: (i) false advertising under the Lanham Act, 15 U.S.C. § 1125(a); (ii) unfair competition under 15 U.S.C. § 1125(a); (iii) deceptive practices under New York General Business Law § 349; (iv) deceptive practices under New York General Business Law § 350; and (v) tortious interference with prospective economic advantage. On November 16, 2017, Elysium Health moved to dismiss for failure to state a claim. ChromaDex, Inc. opposed the motion on November 30, 2017 and Elysium Health filed a reply on December 7, 2017. On November 3, 2017, the Court consolidated the SDNY Complaint and the ChromaDex

SDNY Complaint actions under the caption In re Elysium Health-ChromaDex Litigation, 17-cv-7394, and stayed discovery in the consolidated action pending a Court-ordered mediation. The mediation was unsuccessful and the motion is currently pending.

The Company is unable to predict the outcome of these matters and, at this time, cannot reasonably estimate the possible loss or range of loss with respect to the legal proceedings discussed herein. As of June 30, 2018, ChromaDex, Inc. did not accrue a potential loss for the Counterclaim or the SDNY Complaint because ChromaDex, Inc. believes that the allegations are without merit and thus it is not probable that a liability has been incurred.

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From time to time we are involved in legal proceedings arising in the ordinary course of our business. We believe that there is no other litigation pending that is likely to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

Lease

On February 7, 2018, the Company entered into a lease amendment to lease additional office space located in Los Angeles, California through October 2021. Pursuant to the lease, the Company will make additional monthly lease payments ranging from approximately \$9,000 to \$11,000, as the payments escalate during the term of the lease.

Employment agreement with Robert Fried

On June 22, 2018, the Company and Robert Fried, the Company's Chief Executive Officer, entered into an Amended and Restated Executive Employment Agreement (the "Employment Agreement"). The Employment Agreement amends the Executive Employment Agreement by and between the Company and Mr. Fried, dated March 12, 2017, as amended on December 20, 2017.

Pursuant to the Employment Agreement, Mr. Fried is entitled to: (i) an annual base salary of \$450,000; (ii) starting in fiscal year 2019, an increased annual base salary of \$500,000; (iii) annual cash bonuses (iv) an option to purchase up to 744,097 shares of Company common stock under the 2017 Plan (the "Option"), with one-third of the shares subject to the Option vesting on June 22, 2019 and the remaining shares vesting in a series of 24 equal monthly installments thereafter; (v) up to 333,333 shares of fully-vested restricted Company common stock that will be granted upon the achievement of certain performance goals and (vi) starting in fiscal year 2019, annual equity grants in amounts commensurate with Mr. Fried's position with the Company, in the discretion of the Company's Board of Directors. Any unvested shares subject to the Option will vest in full upon termination by the Company of Mr. Fried's employment without cause or Mr. Fried's resignation for "Good Reason," as defined in the Employment Agreement.

If Mr. Fried's employment is terminated by the Company without cause or Mr. Fried resigns for good reason, Mr. Fried will receive (i) continuation of his base salary for 18 months, (ii) COBRA premiums for 12 months, (iii) accelerated vesting of any unvested time-based vesting equity awards that would have otherwise become vested had Mr. Fried performed continuous service through the one year anniversary of such termination date, (iv) an extended exercise period for his options and stock appreciation rights and (v) a prorated Performance Bonus. In the case of Mr. Fried's death or disability, Mr. Fried will be eligible to receive a prorated Performance Bonus.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in this Management's Discussion and Analysis ("MD&A"), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "would," "expect," "intend," "could," "estimate," "should," "anticipate," or "believe" and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers should carefully review the risk factors and related notes set forth below in Part II, Item 1A, "Risk Factors" and included under Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 30, 2017 filed with the Securities and Exchange Commission on March 15, 2018 (our "Annual Report").

The following MD&A is intended to help readers understand the results of our operation and financial condition, and is provided as a supplement to, and should be read in conjunction with, our Interim Unaudited Financial Statements and the accompanying Notes to Interim Unaudited Financial Statements under Part 1, Item 1 of this Quarterly Report on Form 10-Q.

Growth and percentage comparisons made herein generally refer to the three and six months ended June 30, 2018 compared with the three and six months ended July 1, 2017 unless otherwise noted. Unless otherwise indicated or unless the context otherwise requires, all references in this document to "we," "us," "our," the "Company," and similar expressions refer to ChromaDex Corporation, and depending on the context, its subsidiaries.

Company Overview

ChromaDex is a science-based integrated nutraceutical company devoted to pioneering technologies that improve the way people age. ChromaDex engages with and supports many of the world's leading research institutions and scientists that are diligently working to understand the full potential of nicotinamide adenine dinucleotide ("NAD") and its impact on human health.

NAD is an essential coenzyme and a key regulator of cellular metabolism. Best known for its role in cellular adenosine triphosphate ("ATP") production, NAD is now thought to play an important role in healthy aging. Many cellular functions related to health and healthy aging are sensitive to levels of locally available NAD and this represents an active area of research in the field of NAD.

NAD levels are not constant, and in humans, NAD levels have been shown to decline by more than 50% from young adulthood to middle age. NAD continues to decline as humans grow older. There are other causes of reduced NAD levels such as over-nutrition, alcohol consumption and a number of disease states. NAD may also be increased, including through calorie restriction and exercise. Healthy aging, mitochondria and NAD continue to be areas of focus in the research community. In 2017, there were over 150 studies on NAD.

In 2013, ChromaDex commercialized NIAGEN® nicotinamide riboside ("NR"), a novel form of vitamin B3. Data from numerous animal studies, and confirmed in human clinical trials, show that NR is a highly efficient NAD precursor that significantly raises NAD levels. NIAGEN® is safe for human consumption with no adverse side effects. NIAGEN® has twice been successfully reviewed under FDA's new dietary ingredient ("NDI") notification

program, and has also been successfully notified to the FDA as generally recognized as safe (“GRAS”). Animal studies of NIAGEN® have demonstrated a variety of outcomes ranging from increased NAD levels, increased cellular metabolism and energy production to improvements in insulin sensitivity. NIAGEN® is the trade name for our proprietary ingredient NR, and protected by patents to which we are the exclusive licensee.

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ChromaDex is the world leader in the emerging NAD space. ChromaDex has over 150 partnerships with leading universities and research institutions around the world including the National Institutes of Health, Cornell, Dartmouth, Harvard, Scripps Research Institute and the Mayo Clinic. Other relationships are currently being developed.

Our scientific advisory board is led by Chairman Dr. Roger Kornberg, Nobel Laureate Stanford Professor, Dr. Charles Brenner, one of the world's recognized experts in NAD and inventor of nicotinamide riboside, Dr. Rudi Tanzi, the co-chair of the department of neurology at Harvard Medical School and one of the world's leading experts in food and nutrition, Dr. Bruce German, Chairman of food, nutrition and health at the University of California, Davis, Dr. Robert Beudeker, Vice President of Innovation, who leads the innovation program for human nutrition and health at DSM, Dr. Matthew Roberts, Chief Technical and Quality Officer at Pharmavite, who has over 25 years of success at Abbott, Nestle and Nature's Bounty Co. and Sir John Walker, Nobel Laureate Emeritus Director and Professor at the MRC Mitochondrial Biology Unit at Cambridge.

Financial Condition and Results of Operations

The discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues, if any, and expenses during the reporting periods. On an ongoing basis, we evaluate such estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

As of June 30, 2018, the Company had approximately \$33.4 million cash and cash equivalents on hand. We anticipate that our current cash, cash equivalents and cash to be generated from operations will be sufficient to meet our projected operating plans for at least the next twelve months. We may, however, seek additional capital in the next twelve months, both to meet our projected operating plans after the next twelve months and/or to fund our longer term strategic objectives.

Additional capital may come from public and/or private stock or debt offerings, borrowings under lines of credit or other sources. These additional funds may not be available on favorable terms, or at all. Further, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution and the new equity or debt securities we issue may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our products or proprietary technologies, or to grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, obtain the required regulatory clearances or approvals, achieve long term strategic objectives, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. Any of these events could adversely affect our ability to achieve our development and commercialization goals, which could have a material and adverse effect on our business, results of operations and financial condition.

Some of our operations are subject to regulation by various state and federal agencies. In addition, we expect a significant increase in the regulation of our target markets. Dietary supplements are subject to Food and Drug Administration (the "FDA"), Federal Trade Commission and U.S. Department of Agriculture regulations relating to composition, labeling and advertising claims. These regulations may in some cases, particularly with respect to those applicable to new ingredients, require a notification that must be submitted to the FDA along with evidence of safety.

There are similar regulations related to food additives.

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Our net sales and net loss for the three- and six-month periods ending on June 30, 2018 and July 1, 2017 were as follows:

(In thousands)	Three months ending		Six months ending	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net sales	\$7,803	\$4,218	\$14,370	\$7,586
Net loss	(8,050)	(2,686)	(16,493)	(4,693)
Basic and diluted loss per common share	\$(0.15)	\$(0.07)	\$(0.30)	\$(0.12)

We plan to continue to increase marketing, research and development efforts for our flagship ingredient, NIAGEN® nicotinamide riboside, and our consumer branded product TRU NIAGEN®.

Net Sales

Net sales consist of gross sales less discounts and returns.

(In thousands)	Three months ending			Six months ending		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Net sales:						
Consumer products	\$3,732	\$142	Not Meaningful	\$6,763	\$156	Not Meaningful
Ingredients	2,879	2,863	1%	5,247	4,933	6%
Core standards and contract services	1,192	1,213	-2%	2,360	2,497	-5%
Total net sales	\$7,803	\$4,218	85%	\$14,370	\$7,586	89%

The Company's TRU NIAGEN® sales for consumer products segment increased after the Company's strategic shift towards consumer products. The Company expects the sales for the consumer products segment to continue to grow over the next twelve months.

The increase in sales for the ingredients segment for the six months ended June 30, 2018 is mainly due to increased sales of “NIAGEN®.”

The decrease in sales for the core standards and contract services segment is primarily due to decreased sales of consulting and other services as fewer consulting and service projects were completed.

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Cost of Sales

Cost of sales include raw materials, labor, overhead, and delivery costs.

(In thousands)	Three months ending				Six months ending			
	June 30, 2018		July 1, 2017		June 30, 2018		July 1, 2017	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
Cost of sales:								
Consumer products	\$1,570	42%	\$38	27%	\$2,678	40%	\$41	26%
Ingredients	1,536	53%	1,320	46%	3,033	58%	2,231	45%
Core standards and contract services	851	71%	751	62%	1,676	71%	1,587	64%
Total cost of sales	\$3,957	51%	\$2,109	50%	\$7,387	51%	\$3,859	51%

The cost of sales, as a percentage of net sales, increased by 1% and stayed flat for the three- and six-month periods ended June 30, 2018, respectively, compared to the comparable periods in 2017.

The cost of sales, as a percentage of net sales, for the consumer products segment were 42% and 40% for the three- and six-month periods ended June 30, 2018. Compared to the other segments, the consumer products segment experienced better margins due to the positive impact of TRU NIAGEN® consumer product sales.

The cost of sales, as a percentage of net sales, for the ingredients segment increased 7% and 13% for the three- and six-month periods, respectively. This is largely due to an increase in production costs of NIAGEN® ingredient. In addition, we had a write off of our NIAGEN® related inventory of approximately \$312,000 in the first quarter of 2018.

The cost of sales, as a percentage of net sales for the core standards and contract services segment, increased 9% and 7% for the three- and six-month periods, respectively. The decrease in consulting and other services sales led to a lower labor utilization rate, which resulted in increasing our cost of sales as a percentage of net sales.

Gross Profit

Gross profit is net sales less the cost of sales and is affected by a number of factors including product mix, competitive pricing and costs of products and services.

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(In thousands)	Three months ending			Six months ending		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Gross profit:						
Consumer products	\$2,162	\$104	Not Meaningful	\$4,085	\$115	Not Meaningful
Ingredients	1,343	1,543	-13%	2,214	2,702	-18%
Core standards and contract services	341	462	-26%	684	910	-25%
Total gross profit	\$3,846	\$2,109	82%	\$6,983	\$3,727	87%

The consumer products segment posted gross profit of \$2.2 million and \$4.1 million for the three- and six-month periods ending June 30, 2018. The Company expects the sales and gross profit for consumer products segment to continue to grow over the next twelve months.

The decreased gross profit for the ingredients segment was largely due to an increase in production costs of NIAGEN® ingredient. In addition, we had a write off of our NIAGEN® related inventory of approximately \$312,000 in the first quarter of 2018.

The decreased gross profit for the core standards and contract services segment is largely due to the decreased sale of consulting and other services. Fixed labor costs make up the majority of costs of consulting and other services and these fixed labor costs did not decrease in proportion to sales, hence yielding lower profit margin.

Operating Expenses-Sales and Marketing

Sales and marketing expenses consist of salaries, advertising and marketing expenses.

(In thousands)	Three months ending			Six months ending		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Sales and marketing expenses:						
Consumer products	\$3,357	\$181	Not Meaningful	\$6,084	\$190	Not Meaningful
Ingredients	256	273	-6%	572	569	1%
Core standards and contract services	160	96	67%	386	196	97%
Total sales and marketing expenses	\$3,773	\$550	586%	\$7,042	\$955	637%

For the consumer products segment, we have increased staffing as well as direct marketing expenses associated with social media and other customer awareness and acquisition programs. We plan to continue to invest in building out our own global branded consumer product business.

For the ingredients segment, the decrease during the three-month period ended June 30, 2018 is largely due to decreased marketing efforts as the Company shifts towards consumer products.

For the core standards and contract services segment, the increase is mainly due to our increased marketing efforts.

Operating Expenses-Research and Development

Research and development expenses mainly consist of clinical trials and process development expenses.

(In thousands)	Three months ending			Six months ending		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Research and development expenses:						
Consumer products	\$848	\$51		\$1,677	\$51	

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			Not Meaningful			Not Meaningful
Ingredients	566	799	-29%	\$1,176	1,463	-20%
Total sales and marketing expenses	\$1,414	\$850	66%	\$2,853	\$1,514	88%

In the second quarter of 2017, we began allocating the research and development expenses related to our NIAGEN® branded ingredient to the consumer products and ingredients segment, based on revenues recorded. Previously, these expenses were recorded all in the ingredients segment. Overall, we increased our research and development efforts and we plan to continue to increase research and development efforts for our flagship ingredient, NIAGEN® nicotinamide riboside. In the first half of 2018, we focused on technology development to lower production costs as well as obtaining international regulatory approvals.

Operating Expenses-General and Administrative

General and administrative expenses consist of general company administration, legal, IT, accounting and executive management expenses.

(In thousands)	Three months ending			Six months ending		
	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
General and administrative	\$6,596	\$2,613	152%	\$13,424	\$4,935	172%

The following expenses contributed to the increase in general and administrative expenses in the three- and six-month periods ended June 30, 2018:

An increase in legal expenses. Our legal expenses increased to approximately \$2.1 million and \$5.1 million in the three- and six-month periods ended June 30, 2018, respectively, compared to approximately \$0.8 million and \$1.4 million in the comparable periods in 2017. The ongoing litigation with Elysium and our increased efforts to file and maintain patents related to the proprietary ingredient technologies were the main reasons for the increase in legal expenses.

An increase in share-based compensation. Our share-based compensation recorded as general and administrative expense for three- and six-month periods ended June 30, 2018 increased to approximately \$1.6 million and \$2.7 million, respectively, compared to approximately \$0.4 million and \$0.7 million for the comparable periods in 2017.

An increase in information and technology expense. Our information and technology expense for three- and six month periods ended June 30, 2018 increased to approximately \$0.4 million and \$0.8 million, respectively, compared to approximately \$0.1 million and \$0.2 million for the comparable periods in 2017. We invested in additional staff as well as external consulting in developing and maintaining our Ecommerce platform, which we use to sell our branded consumer product TRU NIAGEN®.

An increase in royalties we paid to patent holders. Our royalty expense for the three- and six month periods ended June 30, 2018 increased to approximately \$0.4 million and \$0.7 million, respectively, compared to approximately \$0.1 million and \$0.2 million for the comparable periods in 2017. The increases are due to increased sales for licensed products in the first half of 2018.

Non-operating Expenses- Interest Expense, net

Interest expense consists of interest on loan payable and capital leases.

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Three months ending

Six months ending

(In thousands) June 30, 2018 July 1, 2017 Change June 30, 2018 July 1, 2017 Change

Interest expense, net	\$48	\$36	33%	\$92	\$64	44%
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The increase in interest expense was mainly due to the costs related to maintaining the line of credit the Company established with Western Alliance Bank.

Income Taxes

At June 30, 2018 and July 1, 2017, the Company maintained a full valuation allowance against the entire deferred income tax balance which resulted in an effective tax rate of approximately 0% for the three- and six-month periods ended June 30, 2018 and July 1, 2017, respectively.

Depreciation and Amortization

Depreciation expense for the six-month period ended June 30, 2018 was approximately \$267,000 as compared to \$264,000 for the six-month period ended July 1, 2017. We depreciate our assets on a straight-line basis, based on the estimated useful lives of the respective assets.

Amortization expense of intangible assets for the six-month period ended June 30, 2018 was approximately \$116,000 as compared to \$90,000 for the six-month period ended July 1, 2017. We amortize intangible assets using a straight-line method, generally over 10 years. For licensed patent rights, the useful lives are 10 years or the remaining term of the patents underlying licensing rights, whichever is shorter. The useful lives of subsequent milestone payments that are capitalized are the remaining useful life of the initial licensing payment that was capitalized.

Liquidity and Capital Resources

From inception through June 30, 2018, we have incurred aggregate losses of approximately \$73 million. These losses are primarily due to expenses associated with the development and expansion of our operations. These operations have been financed through capital contributions, the issuance of common stock and warrants through private placements, and the issuance of debt.

Our board of directors periodically reviews our capital requirements in light of our proposed business plan. Our future capital requirements will remain dependent upon a variety of factors, including cash flow from operations, the ability to increase sales, increasing our gross profits from current levels, reducing selling and administrative expenses as a percentage of net sales, continued development of customer relationships, and our ability to market our new products successfully. However, based on our results from operations, we may determine that we need additional financing to implement our business plan. There can be no assurance that any such financing will be available on terms favorable to us or at all. Without adequate financing we may have to further delay or terminate product and service expansion and curtail certain selling, general and administrative expenses. Any inability to raise additional financing would have a material adverse effect on us.

While we anticipate that our current cash, cash equivalents and cash to be generated from operations will be sufficient to meet our projected operating plans for at least the next twelve months, we may require additional funds, either through additional equity or debt financings or collaborative agreements or from other sources. We have no commitments to obtain such additional financing, and we may not be able to obtain any such additional financing on terms favorable to us, or at all. If adequate financing is not available, the Company will further delay, postpone or terminate product and service expansion and curtail certain selling, general and administrative operations. The inability to raise additional financing may have a material adverse effect on the future performance of the Company.

Net cash used in operating activities

Net cash used in operating activities for the six months ended June 30, 2018 was approximately \$10.5 million as compared to approximately \$5.6 million for the six months ended July 1, 2017. Along with the net loss, an increase in inventories was the largest use of cash during the six-month period ended June 30, 2018, partially offset by an increase in accounts payable and noncash share-based compensation expense. Net cash used in operating activities for the six months ended July 1, 2017 largely reflects a decrease in accounts payable along with the net loss, partially offset by a decrease in trade receivables and noncash share-based compensation expense.

We expect our operating cash flows to fluctuate significantly in future periods as a result of fluctuations in our operating results, shipment timetables, accounts receivable collections, inventory management, and the timing of our payments, among other factors.

Net cash used in investing activities

Net cash used in investing activities was approximately \$1.3 million for the six months ended June 30, 2018, compared to approximately \$0.5 million for the six months ended July 1, 2017. Net cash used in investing activities for the six months ended June 30, 2018 consisted of purchases of leasehold improvements and equipment. Net cash used in investing activities for the six months ended July 1, 2017 consisted of purchases of leasehold improvements and equipment and intangible assets.

Net cash used in financing activities

Net cash used in financing activities was approximately \$0.2 million for the six months ended June 30, 2018, compared to approximately \$18.5 million provided by financing activities for the six months ended July 1, 2017. Net cash used in financing activities for the six months ended June 30, 2018 primarily consisted of repurchase of common stock, partially offset by proceeds from the exercise of stock options. Net cash provided by financing activities for the six months ended July 1, 2017 mainly consisted of the issuance of common stock in a private placement financing.

Contractual Obligations and Commitments

During the six months ended June 30, 2018, there were no material changes outside of the ordinary course of business in the specified contractual obligations disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as contained in our Annual Report, other than as disclosed in “Item 1 Financial Statements” of this Quarterly Report.

Off-Balance Sheet Arrangements

During the six months ended June 30, 2018, we had no material off-balance sheet arrangements other than with respect to ordinary operating leases as disclosed in the “Financial Statements and Supplementary Data” section of our Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our capital lease obligations bear interest at a fixed rate and therefore have no exposure to changes in interest rates.

The Company’s cash consists of short term, highly liquid investments in money market funds managed by banks. Due to the short-term duration of our investment portfolio and the relatively low risk profile of our investments, a sudden change in interest rates would not have a material effect on either the fair market value of our portfolio, our operating results or our cash flows.

Foreign Currency Risk

All of our long-lived assets are located within the United States and we do not hold any foreign currency denominated financial instruments that are material.

Effects of Inflation

We do not believe that inflation has had a material effect on our results of operations or financial condition during the periods presented.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2018, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Exchange Act) that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no changes in internal control over financial reporting that occurred during the Company's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our legal proceedings, see Note 11, Commitments and Contingencies, Legal Proceedings of the Notes to Consolidated Financial Statements, included in Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Current investors and potential investors should consider carefully the risks and uncertainties described below and in our Annual Report, together with all other information contained in this Form 10-Q and our Annual Report, including our financial statements, the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before making investment decisions with respect to our common stock. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. Under these circumstances, the trading price and value of our common stock could decline, and you may lose all or part of your investment. The risks and uncertainties described in this Form 10-Q and in our Annual Report are not the only ones facing our Company. Additional risks and uncertainties of which we are not presently aware, or that we currently consider immaterial, may also impair our business operations. The risk factors set forth below that are marked with an asterisk (*) contain changes to the similarly titled risk factors included in Part I, Item 1A of our Annual Report.

Risks Related to our Company and our Business

*We have a history of operating losses, may need additional financing to meet our future long-term capital requirements and may be unable to raise sufficient capital on favorable terms or at all.

We have recorded a net loss of approximately \$16.5 million for the six months ended June 30, 2018, and we have a history of losses and may continue to incur operating and net losses for the foreseeable future. We incurred net losses of approximately \$11.4 million, \$2.9 million and \$2.8 million for the years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. As of June 30, 2018, our accumulated deficit was approximately \$73 million. We have not achieved profitability on an annual basis. We may not be able to reach a level of revenue to continue to achieve and sustain profitability. If our revenues grow slower than anticipated, or if operating expenses exceed expectations, then we may not be able to achieve and sustain profitability in the near future or at all, which may depress our stock price.

As of June 30, 2018, our cash and cash equivalents totaled approximately \$33.4 million. While we anticipate that our current cash, cash equivalents and cash to be generated from operations will be sufficient to meet our projected operating plans through at least August 2019, we may require additional funds, either through additional equity or debt financings or collaborative agreements or from other sources. We have no commitments to obtain such additional financing, and we may not be able to obtain any such additional financing on terms favorable to us, or at all. If adequate financing is not available, the Company will further delay, postpone or terminate product and service expansion and curtail certain selling, general and administrative operations. The inability to raise additional financing may have a material adverse effect on the future performance of the Company.

*Our capital requirements will depend on many factors.

Our capital requirements will depend on many factors, including:

the revenues generated by sales of our products;

the costs associated with expanding our sales and marketing efforts, including efforts to hire independent agents and sales representatives and obtain required regulatory approvals and clearances;

the expenses we incur in developing and commercializing our products, including the cost of obtaining and maintaining regulatory approvals; and

unanticipated general and administrative expenses, including expenses involved with our ongoing litigation with Elysium.

Because of these factors, we may seek to raise additional capital prior to August 2019 both to meet our projected operating plans after August 2019 and to fund our longer term strategic objectives. Additional capital may come from public and private equity or debt offerings, borrowings under lines of credit or other sources. These additional funds may not be available on favorable terms, or at all. There can be no assurance we will be successful in raising these additional funds. Furthermore, if we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution and the new equity or debt securities we issue may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish valuable rights to our products or proprietary technologies, or grant licenses on terms that are not favorable to us. If we cannot raise funds on acceptable terms, we may not be able to develop or enhance our products, obtain the required regulatory clearances or approvals, execute our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated customer requirements. Any of these events could adversely affect our ability to achieve our development and commercialization goals, which could have a material and adverse effect on our business, results of operations and financial condition.

*We are currently engaged in substantial and complex litigation with Elysium Health, Inc. and Elysium Health LLC ("Elysium"), the outcome of which could materially harm our business and financial results.

We are currently engaged in litigation with Elysium, a customer that represented 19% of our net sales for the year ended December 31, 2016. Elysium has made no purchases from us since August 9, 2016. The litigation includes multiple complaints and counterclaims by us and Elysium in venues in California and New York, as well as a petition by Elysium with the U.S. Patent and Trademark Office for inter partes review of one patent to which we are the exclusive licensee. For further details on this litigation, please refer to Part II, Item 1 of this Quarterly Report on Form 10-Q.

The litigation is substantial and complex, and it has and could continue to cause us to incur significant costs, as well as distract our management over an extended period. The litigation may substantially disrupt our business and we cannot assure you that we will be able to resolve the litigation on terms favorable to us. If we are unsuccessful in resolving the litigation on favorable terms to us, we may be forced to pay compensatory and punitive damages and restitution for any royalty payments that we received from Elysium, which payments could materially harm our business, or be

subject to other remedies, including injunctive relief. Further, if we are unsuccessful in resolving the Patent Claim on favorable terms, or if the U.S. Patent and Trademark Office invalidates the patent subject to the inter partes review, we may lose the competitive advantage that is provided by the subject intellectual property rights, which would have a material adverse effect on our business. In addition, Elysium has not paid us approximately \$2.7 million for previous purchase orders. We may not collect the full amount owed to us by Elysium, and as a result, we may have to write off a large portion of that amount as uncollectible expense. We cannot predict the outcome of our litigation with Elysium, which could have any of the results described above or other results that could materially harm our business.

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*Interruptions in our relationships or declines in our business with major customers could materially ham our business and financial results.

Two of our customers accounted for approximately 24% of our sales during the quarter ended June 30, 2018. Any interruption in our relationship or decline in our business with these customers or other customers upon whom we become highly dependent could cause harm to our business. Factors that could influence our relationship with our customers upon whom we may become highly dependent include:

our ability to maintain our products at prices that are competitive with those of our competitors;

our ability to maintain quality levels for our products sufficient to meet the expectations of our customers;

our ability to produce, ship and deliver a sufficient quantity of our products in a timely manner to meet the needs of our customers;

our ability to continue to develop and launch new products that our customers feel meet their needs and requirements, with respect to cost, timeliness, features, performance and other factors;

our ability to provide timely, responsive and accurate customer support to our customers; and

the ability of our customers to effectively deliver, market and increase sales of their own products based on ours.

*In an effort to promote and better market our consumer products, we have made a strategic decision to not ship NIAGEN® to certain ingredient segment customers, which could potentially harm our overall sales.

By developing and selling TRU NIAGEN®, our own consumer standalone NIAGEN® supplement product, we are in direct competition with some of our current ingredients segment customers that use NIAGEN® in the products that are sold to consumers. In an effort to promote and better market our consumer product, we have made a strategic decision not to ship NIAGEN® to certain ingredients segment customers, which will have a negative effect on our ingredient segment sales. For example, sales for our ingredients segment for the year ended December 30, 2017 decreased 34% compared to the year ended December 31, 2016. Additionally, as our own consumer product becomes more prominent and widely adopted by consumers, the competition with our consumer product could potentially further harm the sales of our ingredients segment business, and our sales of NIAGEN® for our ingredients segment may further decrease. The sales of our consumer product may not outweigh the decrease in sales of our ingredients segment, which would lead to an overall decrease in our sales. Sales for our ingredients segment represented approximately 37% of the Company's revenue for the first six months of 2018, and sales of NIAGEN® accounted for approximately 61% of our ingredient segment's total sales in the first six months of 2018, or 22% of our overall revenue, so any harm to our NIAGEN® ingredient sales, if not compensated for by sales of our consumer product, may materially and negatively affect our business.

Our future success largely depends on sales of our TRU NIAGEN® product.

In connection with our strategic shift from an ingredient and testing company to a consumer focused company, we expect to generate a significant percentage of our future revenue from sales of our TRU NIAGEN® product. As a result, the market acceptance of TRU NIAGEN® is critical to our continued success, and if we are unable to expand market acceptance of TRU NIAGEN®, our business, results of operations, financial condition, liquidity and growth prospects would be adversely affected.

Decline in the state of the global economy and financial market conditions could adversely affect our ability to conduct business and our results of operations.

Global economic and financial market conditions, including disruptions in the credit markets and the impact of the global economic deterioration may materially impact our customers and other parties with whom we do business. These conditions could negatively affect our future sales of our ingredient lines as many consumers consider the purchase of nutritional products discretionary. Decline in general economic and financial market conditions could materially adversely affect our financial condition and results of operations. Specifically, the impact of these volatile and negative conditions may include decreased demand for our products and services, a decrease in our ability to accurately forecast future product trends and demand, and a negative impact on our ability to timely collect receivables from our customers. The foregoing economic conditions may lead to increased levels of bankruptcies, restructurings and liquidations for our customers, scaling back of research and development expenditures, delays in planned projects and shifts in business strategies for many of our customers. Such events could, in turn, adversely affect our business through loss of sales.

We may need to increase the size of our organization, and we can provide no assurance that we will successfully expand operations or manage growth effectively.

Our significant increase in the scope and the scale of our product launches, including the hiring of additional personnel, has resulted in significantly higher operating expenses. As a result, we anticipate that our operating expenses will continue to increase. Expansion of our operations may also cause a significant demand on our management, finances and other resources. Our ability to manage the anticipated future growth, should it occur, will depend upon a significant expansion of our accounting and other internal management systems and the implementation and subsequent improvement of a variety of systems, procedures and controls. There can be no assurance that significant problems in these areas will not occur. Any failure to expand these areas and implement and improve such systems, procedures and controls in an efficient manner at a pace consistent with our business could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that our attempts to expand our marketing, sales, manufacturing and customer support efforts will be successful or will result in additional sales or profitability in any future period. As a result of the expansion of our operations and the anticipated increase in our operating expenses, as well as the difficulty in forecasting revenue levels, we expect to continue to experience significant fluctuations in our results of operations.

Changes in our business strategy, including entering the consumer product market, or restructuring of our businesses may increase our costs or otherwise affect the profitability of our businesses.

As changes in our business environment occur we may adjust our business strategies to meet these changes or we may otherwise decide to restructure our operations or businesses or assets. In addition, external events including changing technology, changing consumer patterns and changes in macroeconomic conditions may impair the value of our assets. When these changes or events occur, we may incur costs to change our business strategy and may need to write down the value of assets. In any of these events, our costs may increase, we may have significant charges associated with the write-down of assets or returns on new investments may be lower than prior to the change in strategy or restructuring. For example, if we are not successful in developing our consumer product business, our sales may decrease and our costs may increase.

The success of our consumer product and ingredient business is linked to the size and growth rate of the vitamin, mineral and dietary supplement market and an adverse change in the size or growth rate of that market could have a material adverse effect on us.

An adverse change in the size or growth rate of the vitamin, mineral and dietary supplement market could have a material adverse effect on our business. Underlying market conditions are subject to change based on economic conditions, consumer preferences and other factors that are beyond our control, including media attention and scientific research, which may be positive or negative.

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Our future growth and profitability of our consumer product business will depend in large part upon the effectiveness and efficiency of our marketing efforts and our ability to select effective markets and media in which to advertise.

Our consumer products business success depends on our ability to attract and retain customers, which significantly depends on our marketing practices. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our marketing efforts, including our ability to:

- create greater awareness of our brand;

- identify the most effective and efficient levels of spending in each market, media and specific media vehicle;

- determine the appropriate creative messages and media mix for advertising, marketing and promotional expenditures;

- effectively manage marketing costs (including creative and media) to maintain acceptable customer acquisition costs;

- acquire cost-effective television advertising;

- select the most effective markets, media and specific media vehicles in which to advertise; and

- convert consumer inquiries into actual orders.

Unfavorable publicity or consumer perception of our products and any similar products distributed by other companies could have a material adverse effect on our business.

We believe the nutritional supplement market is highly dependent upon consumer perception regarding the safety, efficacy and quality of nutritional supplements generally, as well as of products distributed specifically by us. Consumer perception of our products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, national media attention and other publicity regarding the consumption of nutritional supplements. We cannot assure you that future scientific research, findings, regulatory proceedings, litigation, media attention or other favorable research findings or publicity will be favorable to the nutritional supplement market or any product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, such earlier research reports, findings or publicity could have a material adverse effect on the demand for our products and consequently on our business, results of operations, financial condition and cash flows.

Our dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, if accurate or with merit, could have a material adverse effect on the demand for our products, the availability and pricing of our ingredients, and our business, results of operations, financial condition and cash flows. Further, adverse public reports or other media attention regarding the safety, efficacy and quality of nutritional supplements in general, or our products specifically, or associating the consumption of nutritional supplements with illness, could have such a material adverse effect. Any such adverse public reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed and the content of such public reports and other media attention may be beyond our control.

We may incur material product liability claims, which could increase our costs and adversely affect our reputation, revenues and operating income.

As a consumer product and ingredient supplier we market and manufacture products designed for human and animal consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in injury. Our products consist of vitamins, minerals, herbs and other ingredients that are classified as foods, dietary supplements, or natural health products, and, in most cases, are not necessarily subject to pre-market regulatory approval in the United States. Some of our products contain innovative ingredients that do not have long histories of human consumption. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur. In addition, the products we sell are produced by third-party manufacturers. As a marketer of products manufactured by third parties, we also may be liable for various product liability claims for products we do not manufacture. We may, in the future, be subject to various product liability claims, including, among others, that our products include inadequate instructions for use or inadequate warnings concerning possible side effects and interactions with other substances. A product liability claim against us could result in increased costs and could adversely affect our reputation with our customers, which, in turn, could have a materially adverse effect on our business, results of operations, financial condition and cash flows.

We acquire a significant amount of key ingredients for our products from foreign suppliers, and may be negatively affected by the risks associated with international trade and importation issues.

We acquire a significant amount of key ingredients for a number of our products from suppliers outside of the United States, particularly India and China. Accordingly, the acquisition of these ingredients is subject to the risks generally associated with importing raw materials, including, among other factors, delays in shipments, changes in economic and political conditions, quality assurance, nonconformity to specifications or laws and regulations, tariffs, trade disputes and foreign currency fluctuations. While we have a supplier certification program and audit and inspect our suppliers' facilities as necessary both in the United States and internationally, we cannot assure you that raw materials received from suppliers outside of the United States will conform to all specifications, laws and regulations. There have in the past been quality and safety issues in our industry with certain items imported from overseas. We may incur additional expenses and experience shipment delays due to preventative measures adopted by the Indian and U.S. governments, our suppliers and our company.

The insurance industry has become more selective in offering some types of coverage and we may not be able to obtain insurance coverage in the future.

The insurance industry has become more selective in offering some types of insurance, such as product liability, product recall, property and directors' and officers' liability insurance. Our current insurance program is consistent with both our past level of coverage and our risk management policies. However, we cannot assure you that we will be able to obtain comparable insurance coverage on favorable terms, or at all, in the future. Certain of our customers as well as prospective customers require that we maintain minimum levels of coverage for our products. Lack of coverage or coverage below these minimum required levels could cause these customers to materially change business terms or to cease doing business with us entirely.

If we experience product recalls, we may incur significant and unexpected costs, and our business reputation could be adversely affected.

We may be exposed to product recalls and adverse public relations if our products are alleged to be mislabeled or to cause injury or illness, or if we are alleged to have violated governmental regulations. A product recall could result in substantial and unexpected expenditures, which would reduce operating profit and cash flow. In addition, a product recall may require significant management attention. Product recalls may hurt the value of our brands and lead to decreased demand for our products. Product recalls also may lead to increased scrutiny by federal, state or international regulatory agencies of our operations and increased litigation and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

*We depend on key personnel, the loss of any of which could negatively affect our business.

We depend greatly on Frank L. Jaksch Jr., Robert N. Fried, Kevin M. Farr, Mark J. Friedman, Lisa Bratkovich and Troy A. Rhonemus, who are our Executive Chairman of the Board, Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Marketing Officer and Executive Vice President, respectively. We also depend greatly on other key employees, including key scientific and marketing personnel. In general, only highly qualified and trained scientists have the necessary skills to develop our products and provide our services. Only marketing personnel with specific experience and knowledge in health care are able to effectively market our products. In addition, some of our manufacturing, quality control, safety and compliance, information technology, sales and e-commerce related positions are highly technical as well. We face intense competition for these professionals from our competitors, customers, marketing partners and other companies throughout the industries in which we compete. Our success will depend, in part, upon our ability to attract and retain additional skilled personnel, which will require substantial additional funds. There can be no assurance that we will be able to find and attract additional qualified employees or

retain any such personnel. Our inability to hire qualified personnel, the loss of services of our key personnel, or the loss of services of executive officers or key employees that may be hired in the future may have a material and adverse effect on our business.

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Our operating results may fluctuate significantly as a result of a variety of factors, many of which are outside of our control.

We are subject to the following factors, among others, that may negatively affect our operating results:

- the announcement or introduction of new products by our competitors;
- our ability to upgrade and develop our systems and infrastructure to accommodate growth;
- the decision by significant customers to reduce purchases;
- disputes and litigation with competitors;
- our ability to attract and retain key personnel in a timely and cost-effective manner;
- technical difficulties;
- the amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure;
- regulation by federal, state or local governments; and
- general economic conditions as well as economic conditions specific to the healthcare industry.

As a result of our limited operating history and the nature of the markets in which we compete, it is extremely difficult for us to make accurate forecasts. We have based our current and future expense levels largely on our investment plans and estimates of future events although certain of our expense levels are, to a large extent, fixed. Assuming our products reach the market, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues relative to our planned expenditures would have an immediate adverse effect on our business, results of operations and financial condition. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions that could have a material and adverse effect on our business, results of operations and financial condition. Due to the foregoing factors, our revenues and operating results are and will remain difficult to forecast.

We face significant competition, including changes in pricing.

The markets for our products and services are both competitive and price sensitive. Many of our competitors have significant financial, operations, sales and marketing resources and experience in research and development. Competitors could develop new technologies that compete with our products and services or even render our products obsolete. If a competitor develops superior technology or cost-effective alternatives to our products and services, our business could be seriously harmed.

The markets for some of our products are also subject to specific competitive risks because these markets are highly price competitive. Our competitors have competed in the past by lowering prices on certain products. If they do so again, we may be forced to respond by lowering our prices. This would reduce sales revenues and increase losses. Failure to anticipate and respond to price competition may also impact sales and aggravate losses.

We believe that customers in our markets display a significant amount of loyalty to their supplier of a particular product. To the extent we are not the first to develop, offer and/or supply new products, customers may buy from our competitors or make materials themselves, causing our competitive position to suffer.

Many of our competitors are larger and have greater financial and other resources than we do.

Our products compete and will compete with other similar products produced by our competitors. These competitive products could be marketed by well-established, successful companies that possess greater financial, marketing, distributional, personnel and other resources than we possess. Using these resources, these companies can implement extensive advertising and promotional campaigns, both generally and in response to specific marketing efforts by competitors, and enter into new markets more rapidly to introduce new products. In certain instances, competitors with greater financial resources also may be able to enter a market in direct competition with us, offering attractive marketing tools to encourage the sale of products that compete with our products or present cost features that consumers may find attractive.

We may never develop any additional products to commercialize.

We have invested a substantial amount of our time and resources in developing various new products. Commercialization of these products will require additional development, clinical evaluation, regulatory approval, significant marketing efforts and substantial additional investment before they can provide us with any revenue. Despite our efforts, these products may not become commercially successful products for a number of reasons, including but not limited to:

- we may not be able to obtain regulatory approvals for our products, or the approved indication may be narrower than we seek;

- our products may not prove to be safe and effective in clinical trials;

- we may experience delays in our development program;

- any products that are approved may not be accepted in the marketplace;

- we may not have adequate financial or other resources to complete the development or to commence the commercialization of our products or will not have adequate financial or other resources to achieve significant commercialization of our products;

- we may not be able to manufacture any of our products in commercial quantities or at an acceptable cost;

- rapid technological change may make our products obsolete;

- we may be unable to effectively protect our intellectual property rights or we may become subject to claims that our activities have infringed the intellectual property rights of others; and

- we may be unable to obtain or defend patent rights for our products.

We may not be able to partner with others for technological capabilities and new products and services.

Our ability to remain competitive may depend, in part, on our ability to continue to seek partners that can offer technological improvements and improve existing products and services that are offered to our customers. We are committed to attempting to keep pace with technological change, to stay abreast of technology changes and to look for partners that will develop new products and services for our customer base. We cannot assure prospective investors that we will be successful in finding partners or be able to continue to incorporate new developments in technology, to improve existing products and services, or to develop successful new products and services, nor can we be certain that newly developed products and services will perform satisfactorily or be widely accepted in the marketplace or that the costs involved in these efforts will not be substantial.

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If we fail to maintain adequate quality standards for our products and services, our business may be adversely affected and our reputation harmed.

Dietary supplement, nutraceutical, food and beverage, functional food, analytical laboratories, pharmaceutical and cosmetic customers are often subject to rigorous quality standards to obtain and maintain regulatory approval of their products and the manufacturing processes that generate them. A failure to maintain, or, in some instances, upgrade our quality standards to meet our customers' needs, could cause damage to our reputation and potentially substantial sales losses.

*Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain and may be inadequate, which would have a material and adverse effect on us.

Our success depends significantly on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of copyright, trade secret and trademark laws and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology, including our licensed technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. For example, our pending United States and foreign patent applications may not issue as patents in a form that will be advantageous to us or may issue and be subsequently successfully challenged by others and invalidated. In addition, our pending patent applications include claims to material aspects of our products and procedures that are not currently protected by issued patents. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. Competitors may be able to design around our patents or develop products which provide outcomes which are comparable or even superior to ours. Steps that we have taken to protect our intellectual property and proprietary technology, including entering into confidentiality agreements and intellectual property assignment agreements with some of our officers, employees, consultants and advisors, may not provide us with meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Furthermore, the laws of foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States.

In the event a competitor infringes our licensed or pending patent or other intellectual property rights, enforcing those rights may be costly, uncertain, difficult and time consuming. Even if successful, litigation to enforce our intellectual property rights or to defend our patents against challenge could be expensive and time consuming and could divert our management's attention. As further described in Part II, Item 1 of this Quarterly Report on Form 10-Q, we are currently involved in patent litigation, as Elysium is claiming that we misused certain patent rights, and has filed a petition with the U.S. Patent and Trademark Office for inter partes review of two patents to which we are the exclusive licensee. The U.S. Patent Trial and Appeal Board denied institution of an inter partes review for one patent, but granted institution on an inter partes review as to certain claims for the other patent. If we are unsuccessful in resolving the patent misuse claim on favorable terms, or if the U.S. Patent and Trademark Office invalidates the patent still subject to the inter partes review, we may lose the competitive advantage that is provided by the subject intellectual property rights, which could have a material adverse effect on our business. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents rights against a challenge. The failure to obtain patents and/or protect our intellectual property rights could have a material and adverse effect on our business, results of operations and financial condition.

*Our patents and licenses may be subject to challenge on validity grounds, and our patent applications may be rejected.

We rely on our patents, patent applications, licenses and other intellectual property rights to give us a competitive advantage. Whether a patent is valid, or whether a patent application should be granted, is a complex matter of science and law, and therefore we cannot be certain that, if challenged, our patents, patent applications and/or other intellectual property rights would be upheld. If one or more of those patents, patent applications, licenses and other intellectual property rights are invalidated, rejected or found unenforceable, that could reduce or eliminate any competitive advantage we might otherwise have had. For example, as further described in Part II, Item 1 of this Quarterly Report on Form 10-Q, we are currently involved in patent litigation, as Elysium is claiming that we misused certain patent rights, and has filed a petition with the U.S. Patent and Trademark Office for inter partes review of two patents to which we are the exclusive licensee. The U.S. Patent Trial and Appeal Board denied institution of an inter partes review for one patent, but granted institution on an inter partes review as to certain claims for the other patent. If we are unsuccessful in resolving the patent misuse claim on favorable terms, or if the U.S. Patent and Trademark Office invalidates the patent subject to the inter partes review, we may lose the competitive advantage that is provided by the subject intellectual property rights, which could have a material adverse effect on our business.

We may become subject to claims of infringement or misappropriation of the intellectual property rights of others, which could prohibit us from developing our products, require us to obtain licenses from third parties or to develop non-infringing alternatives and subject us to substantial monetary damages.

Third parties could, in the future, assert infringement or misappropriation claims against us with respect to products we develop. Whether a product infringes a patent or misappropriates other intellectual property involves complex legal and factual issues, the determination of which is often uncertain. Therefore, we cannot be certain that we have not infringed the intellectual property rights of others. There may be third-party patents or patent applications with claims to materials, formulations, methods of manufacture or methods for use related to the use or manufacture of our products, and our potential competitors may assert that some aspect of our product infringes their patents. Because patent applications may take years to issue, there also may be applications now pending of which we are unaware that may later result in issued patents upon which our products could infringe. There also may be existing patents or pending patent applications of which we are unaware upon which our products may inadvertently infringe.

Any infringement or misappropriation claim could cause us to incur significant costs, place significant strain on our financial resources, divert management's attention from our business and harm our reputation. If the relevant patents in such claim were upheld as valid and enforceable and we were found to infringe them, we could be prohibited from manufacturing or selling any product that is found to infringe unless we could obtain licenses to use the technology covered by the patent or are able to design around the patent. We may be unable to obtain such a license on terms acceptable to us, if at all, and we may not be able to redesign our products to avoid infringement, which could materially impact our revenue. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm our reputation, business, financial condition and operating results. A court also could enter orders that temporarily, preliminarily or permanently enjoin us and our customers from making, using, or selling products, and could enter an order mandating that we undertake certain remedial activities. Depending on the nature of the relief ordered by the court, we could become liable for additional damages to third parties.

*The prosecution and enforcement of patents licensed to us by third parties are not within our control. Without these technologies, our products may not be successful and our business would be harmed if the patents were infringed on or misappropriated without action by such third parties.

We have obtained licenses from third parties for patents and patent application rights related to the products we are developing, allowing us to use intellectual property rights owned by or licensed to these third parties. We do not control the maintenance, prosecution, enforcement or strategy for many of these patents or patent application rights and as such are dependent in part on the owners of the intellectual property rights to maintain their viability. If any third party licensor is unable to successfully maintain, prosecute or enforce the licensed patents and/or patent application rights related to our products, we may become subject to infringement or misappropriate claims or lose our competitive advantage. Without access to these technologies or suitable design-around or alternative technology options, our ability to conduct our business could be impaired significantly. As further described in Part II, Item 1 of this Quarterly Report on Form 10-Q, Elysium has filed a petition with the U.S. Patent and Trademark Office for inter partes review of two patents to which we are the exclusive licensee. The U.S. Patent Trial and Appeal Board denied institution of an inter partes review for one patent, but granted institution on an inter partes review as to certain claims for the other patent. Pursuant to the exclusive license agreement with the Trustees of Dartmouth College (“Dartmouth”), Dartmouth controls all future preparation, filing, prosecution and maintenance of the patent subject to such inter partes review.

We may be subject to damages resulting from claims that we, our employees, or our independent contractors have wrongfully used or disclosed alleged trade secrets of others.

Some of our employees were previously employed at other dietary supplement, nutraceutical, food and beverage, functional food, analytical laboratories, pharmaceutical and cosmetic companies. We may also hire additional employees who are currently employed at other such companies, including our competitors. Additionally, consultants or other independent agents with which we may contract may be or have been in a contractual arrangement with one or more of our competitors. We may be subject to claims that these employees or independent contractors have used or disclosed such other party's trade secrets or other proprietary information. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to our management. If we fail to defend such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to market existing or new products, which could severely harm our business.

*Litigation may harm our business.

Substantial, complex or extended litigation could cause us to incur significant costs and distract our management. For example, lawsuits by employees, stockholders, collaborators, distributors, customers, competitors or others could be very costly and substantially disrupt our business. Disputes from time to time with such companies, organizations or individuals are not uncommon, and we cannot assure you that we will always be able to resolve such disputes on terms favorable to us. As further described in Part II, Item 1 of this Quarterly Report on Form 10-Q, we are currently involved in substantial and complex litigation with Elysium. Unexpected results could cause us to have financial exposure in these matters in excess of recorded reserves and insurance coverage, requiring us to provide additional reserves to address these liabilities, therefore impacting profits.

Our sales and results of operations for our core standards and contract services segment depend on our customers' research and development efforts and their ability to obtain funding for these efforts.

Our core standards and contract services segment customers include researchers at pharmaceutical and biotechnology companies, chemical and related companies, academic institutions, government laboratories and private foundations. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products. Our customers determine their research and development budgets based on several factors, including the need to develop new products, the availability of governmental and other funding, competition and the general availability of resources. As we continue to expand our international operations, we expect research and development spending levels in markets outside of the United States will become increasingly important to us.

Research and development budgets fluctuate due to changes in available resources, spending priorities, general economic conditions, institutional and governmental budgetary limitations and mergers of pharmaceutical and biotechnology companies. Our business could be harmed by any significant decrease in life science and high technology research and development expenditures by our customers. In particular, a small portion of our sales has been to researchers whose funding is dependent on grants from government agencies such as the United States National Institute of Health, the National Science Foundation, the National Cancer Institute and similar agencies or organizations. Government funding of research and development is subject to the political process, which is often unpredictable. Other departments, such as Homeland Security or Defense, or general efforts to reduce the United States federal budget deficit could be viewed by the government as a higher priority. Any shift away from funding of life science and high technology research and development or delays surrounding the approval of governmental budget proposals may cause our customers to delay or forego purchases of our products and services, which could seriously damage our business.

Some of our customers receive funds from approved grants at a particular time of year, many times set by government budget cycles. In the past, such grants have been frozen for extended periods or have otherwise become unavailable to various institutions without notice. The timing of the receipt of grant funds may affect the timing of purchase decisions by our customers and, as a result, cause fluctuations in our sales and operating results.

Demand for our products and services are subject to the commercial success of our customers' products, which may vary for reasons outside our control.

Even if we are successful in securing utilization of our products in a customer's manufacturing process, sales of many of our products and services remain dependent on the timing and volume of the customer's production, over which we have no control. The demand for our products depends on regulatory approvals and frequently depends on the commercial success of the customer's supported product. Regulatory processes are complex, lengthy, expensive, and can often take years to complete.

We may bear financial risk if we under-price our contracts or overrun cost estimates.

In cases where our contracts are structured as fixed price or fee-for-service with a cap, we bear the financial risk if we initially under-price our contracts or otherwise overrun our cost estimates. Such underpricing or significant cost overruns could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We rely on single or a limited number of third-party suppliers for the raw materials required to produce our products.

Our dependence on a limited number of third-party suppliers or on a single supplier, and the challenges we may face in obtaining adequate supplies of raw materials, involve several risks, including limited control over pricing, availability, quality and delivery schedules. We cannot be certain that our current suppliers will continue to provide us with the quantities of these raw materials that we require or satisfy our anticipated specifications and quality requirements. Any supply interruption in limited or sole sourced raw materials could materially harm our ability to manufacture our products until a new source of supply, if any, could be identified and qualified. Although we believe there are other suppliers of these raw materials, we may be unable to find a sufficient alternative supply channel in a reasonable time or on commercially reasonable terms. Any performance failure on the part of our suppliers could delay the development and commercialization of our products, or interrupt production of then existing products that are already marketed, which would have a material adverse effect on our business.

We may not be successful in acquiring complementary businesses or products on favorable terms.

As part of our business strategy, we intend to consider acquisitions of similar or complementary businesses or products. No assurance can be given that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms. In addition, any future acquisitions will be accompanied by the risks commonly associated with acquisitions. These risks include potential exposure to unknown liabilities of acquired companies or to acquisition costs and expenses, the difficulty and expense of integrating the operations and personnel of the acquired companies, the potential disruption to the business of the combined company and potential diversion of our management's time and attention, the impairment of relationships with and the possible loss of key employees and clients as a result of the changes in management, the incurrence of amortization expenses and write-downs and dilution to the shareholders of the combined company if the acquisition is made for stock of the combined company. In addition, successful completion of an acquisition may depend on consents from third parties, including regulatory authorities and private parties, which consents are beyond our control. There can be no assurance that products, technologies or businesses of acquired companies will be effectively assimilated into the business or product offerings of the combined company or will have a positive effect on the combined company's revenues or earnings. Further, the

combined company may incur significant expense to complete acquisitions and to support the acquired products and businesses. Any such acquisitions may be funded with cash, debt or equity, which could have the effect of diluting or otherwise adversely affecting the holdings or the rights of our existing stockholders.

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If we experience a significant disruption in our information technology systems or if we fail to implement new systems and software successfully, our business could be adversely affected.

We depend on information systems throughout our company to control our manufacturing processes, process orders, manage inventory, process and bill shipments and collect cash from our customers, respond to customer inquiries, contribute to our overall internal control processes, maintain records of our property, plant and equipment, and record and pay amounts due vendors and other creditors. If we were to experience a prolonged disruption in our information systems that involve interactions with customers and suppliers, it could result in the loss of sales and customers and/or increased costs, which could adversely affect our overall business operation.

If we are unable to maintain sales, marketing and distribution capabilities or maintain arrangements with third parties to sell, market and distribute our products, our business may be harmed.

To achieve commercial success for our products, we must sell our product lines and/or technologies at favorable prices. In addition to being expensive, maintaining such a sales force is time-consuming. Qualified direct sales personnel with experience in the natural products industry are in high demand, and there can be no assurance that we will be able to hire or retain an effective direct sales team. Similarly, qualified independent sales representatives both within and outside the United States are in high demand, and we may not be able to build an effective network for the distribution of our product through such representatives. There can be no assurance that we will be able to enter into contracts with representatives on terms acceptable to us. Furthermore, there can be no assurance that we will be able to build an alternate distribution framework should we attempt to do so.

We may also need to contract with third parties in order to market our products. To the extent that we enter into arrangements with third parties to perform marketing and distribution services, our product revenue could be lower and our costs higher than if we directly marketed our products. Furthermore, to the extent that we enter into co-promotion or other marketing and sales arrangements with other companies, any revenue received will depend on the skills and efforts of others, and we do not know whether these efforts will be successful. If we are unable to establish and maintain adequate sales, marketing and distribution capabilities, independently or with others, we will not be able to generate product revenue, and may not become profitable.

Risks Related to Regulatory Approval of Our Products and Other Government Regulations

We are subject to regulation by various federal, state and foreign agencies that require us to comply with a wide variety of regulations, including those regarding the manufacture of products, advertising and product label claims, the distribution of our products and environmental matters. Failure to comply with these regulations could subject us to fines, penalties and additional costs.

Some of our operations are subject to regulation by various United States federal agencies and similar state and international agencies, including the Department of Commerce, the FDA, the FTC, the Department of Transportation and the Department of Agriculture. These regulations govern a wide variety of product activities, from design and development to labeling, manufacturing, handling, sales and distribution of products. If we fail to comply with any of these regulations, we may be subject to fines or penalties, have to recall products and/or cease their manufacture and distribution, which would increase our costs and reduce our sales.

We are also subject to various federal, state, local and international laws and regulations that govern the handling, transportation, manufacture, use and sale of substances that are or could be classified as toxic or hazardous substances. Some risk of environmental damage is inherent in our operations and the products we manufacture, sell, or distribute. Any failure by us to comply with the applicable government regulations could also result in product recalls or impositions of fines and restrictions on our ability to carry on with or expand in a portion or possibly all of our

operations. If we fail to comply with any or all of these regulations, we may be subject to fines or penalties, have to recall products and/or cease their manufacture and distribution, which would increase our costs and reduce our sales.

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Government regulations of our customer's business are extensive and are constantly changing. Changes in these regulations can significantly affect customer demand for our products and services.

The process by which our customers' industries are regulated is controlled by government agencies and depending on the market segment can be very expensive, time consuming, and uncertain. Changes in regulations or the enforcement practices of current regulations could have a negative impact on our customers and, in turn, our business. At this time, it is unknown how the FDA will interpret and to what extent it will enforce good manufacturing practices, regulations that will likely affect many of our customers. These uncertainties may have a material impact on our results of operations, as lack of enforcement or an interpretation of the regulations that lessens the burden of compliance for the dietary supplement marketplace may cause a reduced demand for our products and services.

Changes in government regulation or in practices relating to the pharmaceutical, dietary supplement, food and cosmetic industry could decrease the need for the services we provide.

Governmental agencies throughout the world, including in the United States, strictly regulate the pharmaceutical, dietary supplement, food and cosmetic industries. Our business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying or that make our services less competitive, could eliminate or substantially reduce the demand for our services. Also, if the government makes efforts to contain drug costs and pharmaceutical and biotechnology company profits from new drugs, our customers may spend less, or reduce their spending on research and development. If health insurers were to change their practices with respect to reimbursements for pharmaceutical products, our customers may spend less, or reduce their spending on research and development.

If we should in the future become required to obtain regulatory approval to market and sell our goods we will not be able to generate any revenues until such approval is received.

The pharmaceutical industry is subject to stringent regulation by a wide range of authorities. While we believe that, given our present business, we are not currently required to obtain regulatory approval to market our goods because, among other things, we do not (i) produce or market any clinical devices or other products, or (ii) sell any medical products or services to the customer, we cannot predict whether regulatory clearance will be required in the future and, if so, whether such clearance will at such time be obtained for any products that we are developing or may attempt to develop. Should such regulatory approval in the future be required, our goods may be suspended or may not be able to be marketed and sold in the United States until we have completed the regulatory clearance process as and if implemented by the FDA. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product or service and would require the expenditure of substantial resources.

If regulatory clearance of a good that we propose to propose to market and sell is granted, this clearance may be limited to those particular states and conditions for which the good is demonstrated to be safe and effective, which would limit our ability to generate revenue. We cannot ensure that any good that we develop will meet all of the applicable regulatory requirements needed to receive marketing clearance. Failure to obtain regulatory approval will prevent commercialization of our goods where such clearance is necessary. There can be no assurance that we will obtain regulatory approval of our proposed goods that may require it.

Risks Related to the Securities Markets and Ownership of our Equity Securities

The market price of our common stock may be volatile and adversely affected by several factors.

The market price of our common stock could fluctuate significantly in response to various factors and events, including, but not limited to:

our ability to integrate operations, technology, products and services;

our ability to execute our business plan;

our operating results are below expectations;

our issuance of additional securities, including debt or equity or a combination thereof,;

announcements of technological innovations or new products by us or our competitors;

acceptance of and demand for our products by consumers;

media coverage regarding our industry or us;

litigation;

disputes with or our inability to collect from significant customers;

loss of any strategic relationship;

industry developments, including, without limitation, changes in healthcare policies or practices;

economic and other external factors;

reductions in purchases from our large customers;

period-to-period fluctuations in our financial results; and

whether an active trading market in our common stock develops and is maintained.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Our shares of common stock may be thinly traded, so you may be unable to sell at or near ask prices or at all.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained. This situation may be attributable to a number of factors, including the fact that we are a small company that is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community who generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we have become more seasoned and viable. As a consequence, there may be periods of several days or weeks when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot assure you that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained or not diminish.

We have not paid cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our capital stock and do not anticipate paying cash dividends on our capital stock in the foreseeable future. The payment of dividends on our capital stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if the common stock price appreciates.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law new legislation that significantly revises the Internal Revenue Code of 1986, as amended. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits (including reducing the business tax credit for certain clinical testing expenses incurred in the testing of certain drugs for rare diseases or conditions). Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is unknown if and to what extent various states will conform to the newly enacted federal tax law. The impact of this tax reform on holders of our common stock is likewise uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

Stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If future operations or acquisitions are financed through the issuance of additional equity securities, stockholders could experience significant dilution. Securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. In addition, the issuance of shares of our common stock upon the exercise of outstanding options or warrants may result in dilution to our stockholders.

We may become involved in securities class action litigation that could divert management's attention and harm our business.

The stock market in general, and the stocks of early stage companies in particular, have experienced extreme price and volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of the companies involved. If these fluctuations occur in the future, the market price of our shares could fall regardless of our operating performance. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. If the market price or volume of our shares suffers extreme fluctuations, then we may become involved in this type of litigation, which would be expensive and divert management's attention and resources from managing our business.

As a public company, we may also from time to time make forward-looking statements about future operating results and provide some financial guidance to the public markets. Projections may not be made in a timely manner or we might fail to reach expected performance levels and could materially affect the price of our shares. Any failure to meet published forward-looking statements that adversely affect the stock price could result in losses to investors, stockholder lawsuits or other litigation, sanctions or restrictions issued by the Securities and Exchange Commission.

*We have a significant number of outstanding options and warrants, and future sales of these shares could adversely affect the market price of our common stock.

As of June 30, 2018, we had outstanding options for an aggregate of approximately 8.6 million shares of common stock at a weighted average exercise price of \$3.83 per share and outstanding warrants exercisable for an aggregate of approximately 0.5 million shares of common stock at a weighted average exercise price of \$4.15 per share. The holders may sell many of these shares in the public markets from time to time, without limitations on the timing, amount or method of sale. As and when our stock price rises, if at all, more outstanding options and warrants will be in-the-money and the holders may exercise their options and warrants and sell a large number of shares. This could cause the market price of our common stock to decline.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.

Description of Exhibits

- Agreement and Plan of Merger, dated as of May 21, 2008, by and among Cody Resources, Inc., CDI Acquisition, Inc. and ChromaDex, Inc., as amended on June 10, 2008 (incorporated by reference to, and filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 333-140056) filed with the Commission on June 24, 2008)
- 2.1 (1)
- Asset Purchase Agreement, dated as of August 21, 2017, by and among Covance Laboratories Inc., ChromaDex, Inc., ChromaDex Analytics, Inc., and ChromaDex Corporation (incorporated by reference from, and filed as Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-37752) filed with the Commission on November 9, 2017)*
- 2.2
- Amendment to Asset Purchase Agreement, dated as of September 5, 2017, by and among Covance Laboratories Inc., ChromaDex, Inc., ChromaDex Analytics, Inc., and ChromaDex Corporation (incorporated by reference from, and filed as Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-37752) filed with the Commission on November 9, 2017)
- 2.3
- Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to, and filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K (File No. 001-37752) filed with the Commission on March 15, 2018)
- 3.1
- Bylaws of the Registrant (incorporated by reference to, and filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 333-140056) filed with the Commission on June 24, 2008)
- 3.2
- Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to, and filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 000-53290) filed with the Commission on April 12, 2016)
- 3.3
- Amendment to Bylaws of the Registrant (incorporated by reference to, and filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-37752) filed with the Commission on July 19, 2016)
- 3.4
- Form of Stock Certificate representing shares of the Registrant's Common Stock (incorporated by reference to, and filed as Exhibit 4.1 to the Registrant's Annual Report on Form 10-K (File No. 000-53290) filed with the Commission on April 3, 2009)
- 4.1
- Investor's Rights Agreement, effective as of December 31, 2005, by and between The University of Mississippi Research Foundation and the Registrant (incorporated by reference to, and filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 333-140056) filed with the Commission on June 24, 2008)
- 4.2
- Tag-Along Agreement effective as of December 31, 2005, by and among the Registrant, Frank Louis Jaksch, Snr. & Maria Jaksch, Trustees of the Jaksch Family Trust, Margery Germain, Lauren Germain, Emily Germain, Lucie Germain, Frank Louis Jaksch, Jr., and the University of Mississippi Research Foundation (incorporated by reference to, and filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 333-140056) filed with the Commission on June 24, 2008)
- 4.3

- 4.4 Form of Stock Certificate representing shares of the Registrant's Common Stock effective as of January 1, 2016 (incorporated by reference to, and filed as Exhibit 4.4 to the Registrant's Annual Report on Form 10-K (File No. 001-37752) filed with the Commission on March 17, 2016)
- 10.1 Amended and Restated Executive Employment Agreement, dated June 22, 2018, by and between Robert Fried and ChromaDex Corporation (incorporated by reference to, and filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37752) filed with the Commission on June 28, 2018)+
- 10.2 Amendment, dated June 22, 2018, to the Amended and Restated Employment Agreement, by and between Frank L. Jaksch Jr. and ChromaDex, Inc. (incorporated by reference to, and filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-37752) filed with the Commission on June 28, 2018)+
- 10.3 ChromaDex Corporation 2017 Equity Incentive Plan, as amended, and Form of Option Grant Notice, Form of Option Agreement, Form of Restricted Stock Award Grant Notice, Form of Restricted Stock Award Agreement, Form of Restricted Stock Unit Award Grant Notice and Form of Restricted Stock Unit Award Agreement thereunder (incorporated by reference to, and filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K (File No. 001-37752) filed with the Commission on June 28, 2018)+
- 10.4 Amended and Restated Non-Employee Director Compensation Policy +
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(A) of the Securities Exchange Act of 1934, as amended
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(A) of the Securities Exchange Act of 1934, as amended
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Filed herewith.

(1)

Plan and related Forms were assumed by ChromaDex Corporation pursuant to Agreement and Plan of Merger, dated as of May 21, 2008, among ChromaDex Corporation (formerly Cody Resources, Inc.), CDI Acquisition, Inc. and ChromaDex, Inc.

*

This Exhibit has been granted confidential treatment and has been filed separately with the Commission. The confidential portions of this Exhibit have been omitted and are marked by an asterisk.

+

Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHROMADEX CORPORATION

/s/ KEVIN M. FARR

Kevin M. Farr

Chief Financial Officer

Date: August 9, 2018

(principal financial and accounting officer
and duly authorized on behalf of the registrant)