

ChromaDex Corp.
Form 10-Q
November 08, 2012

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 29, 2012

Commission File Number: 000-53290

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

Delaware
(State or other jurisdiction of
incorporation or organization)

26-2940963
(I.R.S. Employer
Identification No.)

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

92618
(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 [X] 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 [X] No []

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

Large accelerated filer [] Accelerated filer [X]
Non-accelerated filer [] Smaller reporting company [X]
(Do not check if smaller reporting company)

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

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Number of shares of common stock of the registrant: 92,640,062 outstanding as of November 7, 2012.



CHROMADEx CORPORATION
2012 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 (Unaudited)
September 29, 2012 and December 31, 2011

	September 29, 2012	December 31, 2011
Assets		
Current Assets		
Cash	\$ 1,237,071	\$ 420,152
Trade receivables, less allowance for doubtful accounts and returns September 29, 2012 \$920,000; December 31, 2011 \$9,000	1,203,429	723,666
Inventories	5,436,439	2,905,600
Prepaid expenses and other assets	392,954	903,934
Total current assets	8,269,893	4,953,352
Leasehold Improvements and Equipment, net	987,732	1,172,288
Deposits and Other Noncurrent Assets		
Deposits	32,167	44,159
Intangible assets, net	140,829	100,106
Total deposits and other noncurrent assets	172,996	144,265
Total assets	\$ 9,430,621	\$ 6,269,905
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 2,838,988	\$ 2,250,241
Accrued expenses	664,771	755,967
Current maturities of capital lease obligations	72,604	77,356
Customer deposits and other	257,004	199,693
Deferred rent, current	67,206	59,743
Total current liabilities	3,900,573	3,343,000
Capital lease obligations, less current maturities	152,424	164,729
Deferred rent, less current	148,544	200,890
Stockholders' Equity		
Common stock, \$.001 par value; authorized 150,000,000 shares; issued and outstanding September 29, 2012 91,650,062 shares; December 31, 2011 72,939,996 shares	91,650	72,940
Additional paid-in capital	33,155,460	20,542,532
Accumulated deficit	(28,018,030)	(18,054,186)
Total stockholders' equity	5,229,080	2,561,286

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Total liabilities and stockholders' equity	\$	9,430,621	\$	6,269,905
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See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the Three Month Periods Ended September 29, 2012 and October 1, 2011

	September 29, 2012	October 1, 2011
Sales	\$ 3,632,244	\$ 1,827,568
Cost of sales	2,377,991	1,361,101
Gross profit	1,254,253	466,467
Operating expenses:		
Sales and marketing	802,171	650,516
General and administrative	1,983,720	2,213,636
Operating expenses	2,785,891	2,864,152
Operating loss	(1,531,638)	(2,397,685)
Nonoperating income (expense):		
Interest income	469	295
Interest expense	(6,865)	(7,522)
Nonoperating expenses	(6,396)	(7,227)
Net loss	\$ (1,538,034)	\$ (2,404,912)
Basic and Diluted loss per common share	\$ (0.02)	\$ (0.03)
Basic and Diluted weighted average common shares outstanding	92,364,418	70,625,913

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the Nine Month Periods Ended September 29, 2012 and October 1, 2011

	September 29, 2012	October 1, 2011
Sales	\$ 8,087,860	\$ 6,304,789
Cost of sales	6,673,127	4,237,008
Gross profit	1,414,733	2,067,781
Operating expenses:		
Sales and marketing	4,529,251	1,661,998
General and administrative	6,829,359	5,786,204
Operating expenses	11,358,610	7,448,202
Operating loss	(9,943,877)	(5,380,421)
Nonoperating income (expense):		
Interest income	2,725	1,159
Interest expense	(22,692)	(24,604)
Nonoperating expenses	(19,967)	(23,445)
Net loss	\$ (9,963,844)	\$ (5,403,866)
Basic and Diluted loss per common share	\$ (0.11)	\$ (0.08)
Basic and Diluted weighted average common shares outstanding	89,477,758	66,190,731

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity (Unaudited)
Nine Months Ended September 29, 2012

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity
Balance, December 31, 2011	72,939,996	\$72,940	\$20,542,532	\$(18,054,186)	\$ 2,561,286
Share-based compensation	364,557	365	65,622	-	65,987
Issuance of common stock, net of offering costs of \$1,104,759	14,899,995	14,900	10,055,338	-	10,070,238
Net loss	-	-	-	(4,431,853)	(4,431,853)
Balance, March 31, 2012	88,204,548	88,205	30,663,492	(22,486,039)	8,265,658
Share-based compensation	1,265,000	1,265	1,197,272	-	1,198,537
Issuance of common stock for vested restricted stock	630,000	630	87,570	-	88,200
Exercise of warrants	214,286	214	44,786	-	45,000
Net loss	-	-	-	(3,993,957)	(3,993,957)
Balance, June 30, 2012	90,313,834	90,314	31,993,120	(26,479,996)	5,603,438
Share-based compensation	780,294	780	1,045,937	-	1,046,717
Issuance of common stock for vested restricted stock	10,000	10	1,390	-	1,400
Exercise of stock options	6,117	6	3,053	-	3,059
Exercise of warrants	539,817	540	111,960	-	112,500
Net loss	-	-	-	(1,538,034)	(1,538,034)
Balance, September 29, 2012	91,650,062	\$91,650	\$33,155,460	\$(28,018,030)	\$ 5,229,080

See Notes to Condensed Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Nine Month Periods Ended September 29, 2012 and October 1, 2011

	September 29, 2012	October 1, 2011
Cash Flows From Operating Activities		
Net loss	\$ (9,963,844)	\$ (5,403,866)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation	247,227	247,024
Amortization of intangibles	11,277	55,843
Share-based compensation expense	2,189,917	2,469,827
Loss from disposal of equipment	1,879	-
Changes in operating assets and liabilities:		
Trade receivables	(479,763)	352,731
Inventories	(2,530,839)	(1,077,763)
Prepaid expenses and other assets	644,296	(381,502)
Accounts payable	588,747	791,949
Accrued expenses	(91,196)	341,453
Customer deposits and other	57,311	127,327
Deferred rent	(44,883)	(20,814)
Net cash (used in) operating activities	(9,369,871)	(2,497,791)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(13,764)	(126,369)
Purchase of intangible assets	(52,000)	(26,000)
Net cash (used in) investing activities	(65,764)	(152,369)
Cash Flows From Financing Activities		
Proceeds from issuance of common stock	10,159,838	-
Proceeds from exercise of stock options	3,059	26,398
Proceeds from exercise of warrants	157,500	2,524,499
Principal payments on capital leases	(67,843)	(57,888)
Net cash provided by financing activities	10,252,554	2,493,009
Net increase (decrease) in cash	816,919	(157,151)
Cash Beginning of Period	420,152	2,226,459
Cash Ending of Period	\$ 1,237,071	\$ 2,069,308
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 22,692	\$ 24,604
Supplemental Schedule of Noncash Investing Activity		
Capital lease obligation incurred for the purchase of equipment	\$ 50,786	\$ -

See Notes to Condensed Consolidated Financial Statements.

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Note 1. Interim Financial Statements

The accompanying financial statements of ChromaDex Corporation (the “Company”) and its wholly owned subsidiaries, ChromaDex, Inc. and ChromaDex Analytics, Inc. 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 our financial position as of September 29, 2012 and results of operations and cash flows for the three- and nine months ended September 29, 2012 and October 1, 2011. 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 31, 2011 appearing in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “Commission”) on March 15, 2012. Operating results for the nine months ended September 29, 2012 are not necessarily indicative of the results to be achieved for the full year ending on December 29, 2012. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Note 2. Nature of Business and Significant Accounting Policies

Nature of business: The Company is a natural products company that provides proprietary, science-based solutions and ingredients to the dietary supplement, food and beverage, cosmetic and pharmaceutical industries. The Company supplies ingredients, phytochemical reference standards and related phytochemical products and services. The Company recently launched its BluScience retail consumer line based on its proprietary ingredients. The Company provides these products and services at various terms.

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 the Saturday closest to December 31, and the Company’s normal fiscal quarters end on the Saturday 13 weeks after the last fiscal year end or fiscal quarter end. Every fifth or sixth fiscal year, the inclusion of an extra week occurs due to the Company’s floating year-end date. The fiscal year 2014 will include 53 weeks instead of the normal 52 weeks.

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a period review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. The allowances for doubtful accounts for the periods ended September 29, 2012 and December 31, 2011 were \$920,000 and \$9,000, respectively. Of the allowance amount of \$920,000 for the period ended September 29, 2012, \$900,000 represents a hold on the receivables placed by a retailer that carries our BluScience retail consumer line. The hold is placed by the retailer as an offset in the event of future returns of our products. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded when received.

Inventories: Inventories are comprised of raw materials, work-in-process and finished goods. They are stated at the lower of cost, determined by the first-in, first-out method (FIFO) method, or market. The inventory on the balance sheet is recorded net of valuation allowances of \$238,000 and \$227,000 for the periods ended September 29, 2012 and

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December 31, 2011, respectively. Labor and overhead has been added to inventory that was manufactured or characterized by the Company. The amounts of major classes of inventory as of September 29, 2012 and December 31, 2011 are as follows:

	September 29, 2012	December 31, 2011
Reference standards	\$ 1,557,187	\$ 1,459,330
Bulk ingredients	470,870	174,847
Dietary supplements – raw materials	595,123	709,476
Dietary supplements – work in process	38,295	38,293
Dietary supplements – finished goods	3,012,964	750,654
	5,674,439	3,132,600
Less valuation allowance	238,000	227,000
	\$ 5,436,439	\$ 2,905,600

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Earnings per share: Potentially dilutive common shares consist of the incremental common shares issuable upon the exercise of common stock options and warrants for all periods. For all periods presented, the basic and diluted shares reported are equal because the common share equivalents are anti-dilutive. Below is a tabulation of the potentially dilutive securities that were “in the money” for the three- and nine-month periods ended September 29, 2012 and October 1, 2011.

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Basic weighted average common shares outstanding	92,364,418	70,625,913	89,477,758	66,190,731
Warrants and options in the money, net	5,994,067	7,673,885	5,908,491	7,891,916
Weighted average common shares outstanding assuming dilution	98,358,485	78,299,798	95,386,249	74,082,647

Total warrants and options that were not “in the money” at September 29, 2012 and October 1, 2011 were 15,214,767 and 17,095,835, respectively.

Note 3. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

	September 29, 2012	December 31, 2011
Laboratory equipment	\$ 2,417,014	\$ 2,378,122
Leasehold improvements	403,971	403,971
Computer equipment	358,439	302,518
Furniture and fixtures	18,313	18,313
Office equipment	7,877	7,877
Construction in progress	106,080	149,086
	3,311,694	3,259,887
Less accumulated depreciation	2,323,962	2,087,599
	\$ 987,732	\$ 1,172,288

Note 4. Employee Share-Based Compensation

Stock Option Plans

At the discretion of the Company’s compensation committee (the “Compensation Committee”), and with the approval of the Company’s board of directors (the “Board of Directors”), the Company may grant options to purchase the Company’s common stock to certain individuals from time to time. Management and the Compensation Committee determine the terms of awards which include the exercise price, vesting conditions and expiration dates at the time of grant. Expiration dates for stock options are not to exceed 10 years from their date of issuance. The Company, under its Second Amended and Restated 2007 Equity Incentive Plan, is authorized to issue stock options that total no more than 20% of the shares of common stock issued and outstanding, as determined on a fully diluted basis. Beginning in 2007, stock options were no longer issuable under the Company’s 2000 Non-Qualified Incentive Stock Plan. The remaining amount available for issuance under the Second Amended and Restated 2007 Equity Incentive Plan totaled 4,304,904 at September 29, 2012. The stock option awards generally vest ratably over a four-year period following

grant date after a passage of time. However, some stock option awards are performance based and vest based on the achievement of certain criteria established by the Compensation Committee, subject to approval by the Board of Directors.

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The fair value of the Company's stock options was estimated at the date of grant using the Black-Scholes based option valuation model. The table below outlines the weighted average assumptions for options granted to employees during the nine months ended September 29, 2012.

Nine Months Ended September 29, 2012	2012	
Volatility	33.14	%
Expected dividends	0.00	%
Expected term	5.8 years	
Risk-free rate	1.02	%

The Company calculated expected volatility from the volatility of publicly held companies in similar industries, as the historical volatility of the Company's common stock does not cover the period equal to the expected life of the options. The dividend yield assumption is based on the Company's history and expectation of future dividend payouts on the common stock. The risk-free interest rate is based on the implied yield available on U.S. treasury zero-coupon issues with an equivalent remaining term. The expected term of the options represents the estimated period of time until exercise and is based on historical experience of awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. The estimation process for the fair value of performance based stock options was the same as for service period based options.

1) Service Period Based Stock Options

The majority of options granted by the Company consist of service period based options granted to employees. These options vest ratably over a defined period following grant date after the passage of a service period.

The following table summarizes service period based stock option activity at September 29, 2012, and changes during the nine months then ended:

	Number of Shares	Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	13,895,872	\$ 1.53		
Options Granted	5,186,713	0.78		
Options Exercised	(6,117)	0.50		
Options Forfeited	(4,661,292)	1.04		
Outstanding at September 29, 2012	14,415,176	\$ 1.42	6.31	\$374,232
Exercisable at September 29, 2012	10,004,421	\$ 1.50	5.84	\$131,049

The aggregate intrinsic values in the table above are before income taxes, based on the Company's closing stock price of \$0.78 on the last day of business for the period ended September 29, 2012.

2) Performance Based Stock Options

The Company also grants stock option awards that are performance based and vest based on the achievement of certain criteria established from time to time by the Compensation Committee. If these performance criteria are not met, the compensation expenses are not recognized and the expenses that have been recognized will be reversed.

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The following table summarizes performance based stock options activity at September 29, 2012 and changes during the nine months then ended:

	Number of Shares	Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,200,000	\$ 1.64		
Options Granted	-	-		
Options Exercised	-	-		
Options Forfeited	(1,000,000)	1.65		
Outstanding at September 29, 2012	200,000	\$ 1.59	8.47	\$-
Exercisable at September 29, 2012	72,917	\$ 1.59	8.46	\$-

On February 13, 2012, William Spengler, our former President, ceased serving in all positions held with the Company. 1,000,000 performance based stock options held by Mr. Spengler were forfeited. Expense recognized related to these forfeited options was reversed during the nine months ended September 29, 2012, as the performance criteria established by the Company were not met. The reversed expense amount the Company had recognized through December 31, 2011 was \$528,300.

As of September 29, 2012, there was \$1,184,317 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 1.65 years as of September 29, 2012. The weighted average fair value of options granted during the nine months ended September 29, 2012 and October 1, 2011 was \$0.27 and \$0.53, respectively. The realized tax benefit from stock options for the nine months ended September 29, 2012 and October 1, 2011 was \$0, based on the Company's election of the "with and without" approach.

Restricted Stock

Restricted stock awards granted by the Company to employees have vesting conditions that are unique to each of the award.

The following table summarizes activity of restricted stock awards granted to employees at September 29, 2012 and changes during the nine months then ended:

	Shares	Weighted Average Award-Date Fair Value
Unvested shares at December 31, 2011	1,000,000	\$ 1.27
Granted	2,250,000	0.75
Vested	-	-
Forfeited	(2,750,000)	0.95
Unvested shares at September 29, 2012	500,000	\$ 0.69
Expected to Vest as of September 29, 2012	500,000	\$ 0.69

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Certain restricted stock awards had market conditions. The fair values of these restricted stock awards were estimated at the dates of award using the Hull-White based binomial valuation model. The table below outlines the weighted average assumptions of these market conditioned restricted stock awarded to employees during the nine months ended September 29, 2012.

Nine Month Ended September 29, 2012	2012	
Expected Term	3.00	
Expected Volatility	69.98	%
Expected Dividends	0.00	%
Risk Free Rate of Return	0.39	%