ChromaDex Corp.
Form 10-K
March 17, 2016

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended January 2, 2016

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission file number 000-53290

CHROMADEX CORPORATION
(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation)	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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Each Exchange on Which Registered
N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “accelerated filer,” “large accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated Filer x Non-accelerated filer o (Do not check if smaller reporting company)
Smaller Reporting Company o

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

As of July 2, 2015, the aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $100,113,000.

Number of shares of common stock of the registrant outstanding as of March 16, 2016: 109,527,000

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (the "Form 10-K") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect the current view about future events. When used in this Form 10-K the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan" or the negative of these terms and similar expressions relate to us or our management identify forward looking statements. Such statements, include, but are not limited to, statements contained in this Form 10-K relating to our business, business strategy, products and services we may offer in the future, sales and marketing strategy and capital outlook. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. They are neither statement of historical fact nor guarantees of assurance of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward looking statements include, but are not limited to, a decline in general economic conditions nationally and internationally; decreased demand for our products and services; market acceptance of our products; the ability to protect our intellectual property rights; impact of any litigation or infringement actions brought against us; competition from other providers and products; risks in product development; inability to raise capital to fund continuing operations; changes in government regulation; the ability to complete customer transactions and capital raising transactions, and other factors (including the risks contained in Item 1A of this Form 10-K under the heading "Risk Factors") relating to our industry, our operations and results of operations and any businesses that may be acquired by us. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to and do not intend to update any of the forward-looking statements to conform these statements to actual results.

Item 1. Business

Company Overview

The business of ChromaDex Corporation is conducted by our principal subsidiaries, ChromaDex, Inc., ChromaDex Analytics, Inc. and Spherix Consulting, Inc. ("Spherix"). ChromaDex Corporation and its subsidiaries (collectively referred to herein as "ChromaDex" or the "Company" or, in the first person as "we" "us" and "our") is a natural produ company that leverages its complementary business units to discover, acquire, develop and commercialize patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. In addition to the Company's proprietary ingredient technologies segment, the Company also has a core standards and contract services segment, which focuses on natural product fine chemicals (known as "phytochemicals") and chemistry and analytical testing services and a regulatory consulting segment (known as Spherix Consulting). As a result of the Company's relationships with leading universities and research institutions, the Company is able to discover and license early stage, intellectual property-backed ingredient technologies. The Company then utilizes the Company's business segments to develop commercially viable proprietary ingredients. The Company's proprietary ingredient portfolio is backed with clinical and scientific research, as well as extensive

intellectual property protection.

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Through ChromaDex Analytics, a part of our core standards and contract services business segment, we perform chemistry-based analytical services at our laboratory in Boulder, Colorado, supporting quality control or quality assurance activities for the dietary supplement industry. Through Spherix, our regulatory consulting segment, we provide scientific and regulatory consulting to the clients in the food, supplement and pharmaceutical industries to manage potential health and regulatory risks. For the fiscal years ended January 2, 2016, January 3, 2015 and December 28, 2013, our revenues were approximately $22,014,000 $15,313,000 $10,161,000 respectively. The following table summarizes the Company's total sales for each of the business segments in the last 3 years.

Fiscal Years	Ingredients Segment	Core Standards and Contract Services Segment	Regulatory Consulting Segment (Spherix Consulting)	Total
2015	$12.5 million	$8.4 million	$1.1 million	$22.0 million
2014	$6.8 million	$7.5 million	$1.0 million	$15.3 million
2013	$2.4 million	$6.5 million	$1.1 million	$10.2 million

We are a leading provider of research and quality-control products and services to the natural products industry. Through our core standards and contract services segment, customers worldwide in the dietary supplement, food and beverage, cosmetic and pharmaceutical industries use our products, which are small quantities of highly-characterized, research-grade, plant-based materials, to ensure the quality of their raw materials and finished products. Customers also use our analytical chemistry services to support their quality assurance activities, primarily to ensure the identity, potency and safety of their consumer products. We have conducted this core standards and contract services business since 1999.

We believe there is a growing need at both the manufacturing and government regulatory levels for reference standards, analytical methods and other quality assurance methods to ensure that products that contain plants, plant extracts and naturally occurring compounds distributed to consumers are safe. We further believe that this need is driven by the perception at the consumer level regarding a lack of adequate quality controls related to certain functional food or dietary supplement based products, as well as increased effort on the part of the Food and Drug Administration ("FDA") to assure Good Manufacturing Practices ("GMP").

Our core standards and contract service business segment provides us with the opportunity to become aware of the results from research and screening activities performed on thousands of potential natural product candidates through our relationships with various universities and research institutions. By selecting the most promising ingredients leveraged from this market-based screening model, which is grounded by primary research performed through leading universities and institutions, followed by selective investments in further research and development, new proprietary ingredients can be identified and brought to various markets with a much lower investment cost and an increased chance of success.

Through our ingredients business segment, we develop and commercialize these new ingredients. One of our proprietary ingredients that we commercialized under this business model is nicotinamide riboside ("NR"), for which our brand name is NIAGEN®. NR is found naturally in trace amounts in milk and other foods and is B3 vitamin. The potential beneficial effects of NR in humans include increased anti-aging properties, fatty acid oxidation, mitochondrial activity, resistance to negative consequences of high-fat diets, protection against oxidative stress, prevention of peripheral neuropathy and blocking muscle degeneration. Published research has shown that NR is a potent precursor to the co-enzyme nicotinamide adenine dinucleotide (NAD+) in the mitochondria of animals. NAD+ is an important cellular co-factor for improvement of mitochondrial performance and energy metabolism. The Company has built a significant patent portfolio pertaining to NR by separately acquiring patent rights from Cornell University, Dartmouth College and Washington University. We have successfully completed the first human clinical trial using NR and the results demonstrated that a single dose of NR resulted in statistically

significant increases in NAD+ in health human volunteers. In addition, NR was also found to be safe as no adverse events were observed throughout the clinical trial. In 2015, NR was recognized by the FDA as a "New Dietary Ingredient." NR was also "Generally Recognized As Safe" by an independent panel of expert toxicologists. For years 2015, 2014, and 2013, NIAGEN® accounted for approximately 68%, 54%, and 14% of our ingredient segment's total sales, respectively.

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Another one of these proprietary ingredients is pterostilbene, for which is marketed and sold under our brand name, pTeroPure®. Pterostilbene is a polyphenol and a powerful antioxidant that shows promise in a range of health related fields. We have exclusive in-licensed patents and patents pending related to the use of pterostilbene for a number of these benefits, and have filed additional patents related to supplementary benefits, such as a patent jointly filed with University of California at Irvine related to its effects on non-melanoma skin cancer. We have successfully conducted a clinical trial, together with the University of Mississippi, related to its blood pressure lowering effects and expect to conduct additional clinical trials on pterostilbene and anticipate entering the dietary supplement and, if clinical results are favorable, the pharmaceutical market. We believe that we also have opportunities in the skin care market and will continue to investigate developing these opportunities internally or through third party partners. We anticipate conducting additional clinical trials on NR, pterostilbene and other compounds in our pipeline to provide differentiation as we market these proprietary ingredients and support various health-related claims or obtain additional regulatory clearances.

Through our regulatory consulting segment ("Spherix"), we provide our clients in the food, supplement and pharmaceutical industries with effective scientific solutions to manage their potential health and regulatory risks. Our science-based solutions are for both new and existing products that may be subject to product liability and/or exposed to changing scientific standards or public perceptions; literature evaluations; and design and assessment of pre-clinical and clinical safety testing. We specialize in regulatory submissions for food and dietary supplement ingredients. For our clients involved in drug development within the pharmaceutical industry, we provide similar services as well as risk-based strategies, including intellectual property data and compliance gap identification, due diligence assessments and investigational new drug writing. Spherix has complemented and expanded our leadership in core standards and contract services business by providing a more comprehensive suite of science-based and regulatory services. Through Spherix, we have more efficiently advanced products in the dietary supplement, food and beverage, animal health, cosmetic and pharmaceutical markets.

Company Background

ChromaDex, Inc. was originally formed as a California corporation on February 19, 2000. On April 23, 2003, ChromaDex Inc. acquired the research and development group of a competing natural product company called Napro Biotherapeutics located in Boulder, Colorado. The assets acquired in this transaction were placed in a newly-formed, wholly-owned subsidiary of ChromaDex named ChromaDex Analytics, Inc., a Nevada corporation. On December 3, 2012, ChromaDex Inc. acquired Spherix Consulting Inc., a scientific and regulatory consulting company located in the greater Washington D.C. area and Spherix became a wholly-owned subsidiary of ChromaDex, Inc. In 2011, the Company launched its BluScience retail consumer line based on its proprietary ingredients. However, on March 28, 2013, the Company entered into an asset purchase and sale agreement with NeutriSci International Inc. ("NeutriSci") and consummated the sale of the BluScience consumer product line to NeutriSci.

Our Strategy

Our business strategy is to identify, acquire, reduce-to-practice, and commercialize innovative new proprietary ingredients and technologies, with an initial industry focus on the dietary supplement, food, beverage, skin care and pharmaceutical markets. We plan to utilize our experienced management team to commercialize these proprietary ingredient technologies by advancing them through any required regulatory approval processes, selectively conducting clinical trials, arranging for reliable and cost-effective manufacturing, and ultimately either directly selling the products or licensing the intellectual property to third parties. We plan to conduct clinical trials to (a) reinforce the health benefits that may be associated with our proprietary ingredients in support of sales made into the dietary supplement and food, cosmetics and beverage markets, (b) potentially improve the quality or specificity of FDA approved claim we can make with respect to these health benefits, and (c) potentially lead us toward pharmaceutical applications for our proprietary ingredients.

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Commercialization of intellectual property: We believe that many of our proprietary ingredients currently in development have the potential to spin off technologies that may themselves be independently capable of commercialization and becoming significant new revenue sources. We believe that new intellectual property can also be developed from our expansion into new markets.

Expansion and growth of the core business: Through our core standards and contract services segment, we intend to continue to expand our phytochemical standards and related contract services offerings. Currently, we have approximately 5,000 defined phytochemical reference standards.

Expansion into new markets: For both our ingredients segment and core standards and contract services segment, we are developing business in new domestic and international markets. These markets include both the domestic and international botanical drug market and the market for novel therapeutic botanicals from Asia, South America and Africa. We have also added what we believe to be new and innovative product offerings, including the screening of compound libraries and the offering of value-added raw materials.

Overview of our Products and Services

We are headquartered in Irvine, California, and our analytical and research laboratory facility, ChromaDex Analytics, is located in Boulder, Colorado. ChromaDex Analytics operates a facility with 13,000 square feet of laboratory and office space. While we perform many of the contract services and research for our clients, ChromaDex Analytics manufactures certain phytochemical reference standards, provides research and development, all analytical services and laboratory support for ChromaDex.

In December 2012, we acquired Spherix, located in the greater Washington D.C. area. Spherix provides its clients in the food, supplement and pharmaceutical industries with effective solutions to manage potential health and regulatory risks.

Current products and services provided are:

Proprietary ingredient technologies (ingredients segment). We offer bulk raw materials for inclusion in dietary supplements, food, beverage and cosmetic products. This is an area where we are increasing our focus, as we believe we can secure and defend our market positions through patents and long-term manufacturing agreements with our customers and vendors.

Supply of reference standards, materials & kits (core standards and contract services segment). We supply a wide range of products necessary to conduct quality control of raw materials and consumer products. Reference standards and materials and the kits created from them are used for research and quality control in the dietary supplements, cosmetics, food and beverages, and pharmaceutical industries.

Supply of fine chemicals and phytochemicals (core standards and contract services segment). As demand for new natural products and phytochemicals increases, we can scale up and supply our core products in the gram to kilogram scale for companies that require these products for research and new product development.

Contract services (core standards and contract services segment). We provide a wide range of contract services ranging from routine contract analysis for the production of dietary supplements, cosmetics, foods and other natural products to elaborate contract research for clients in these industries.

Consulting services (regulatory consulting segment). We provide a comprehensive range of consulting services in the areas of regulatory support, new ingredient or product development, risk management and litigation support. We provide and offer product regulatory approval and scientific advisory services.

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Process development (core standards and contract services segment). Developing cost effective and efficient processes for manufacturing natural products can be very difficult and time consuming. We assist customers in creating processes for cost-effective manufacturing of natural products, using "green chemistry."

Products and services in development:

Nicotinamide riboside (ingredients segment). We are working to develop and conduct additional clinical trials to reinforce the health benefits associated with NR, a recently discovered vitamin found naturally in milk. NR is the most efficient B3 vitamin to enhance NAD+ energetics. NR has shown promise for improving cardiovascular health, glucose levels and cognitive function and has demonstrated evidence of anti-aging effects.

Pterostilbene and caffeine co-crystal (ingredients segment). We are working to develop and conduct additional clinical trials to reinforce the benefits of the co-crystal ingredient comprised of caffeine and pterostilbene. The first human study of this ingredient demonstrated that it delivers 30 percent more caffeine, stays in the blood stream longer, and is absorbed more slowly than ordinary caffeine. With this ingredient, formulators of energy products may have the ability to reduce the total amount of caffeine in their products by as much as 50% without sacrificing consumers' expectations from such products.

Anthocyanin (ingredients segment). We plan to develop an extraction process to concentrate the anthocyanins in Suntava® Purple Corn which will be used to produce a highly concentrated anthocyanin ingredient. We will utilize the expertise of a toll manufacturer to produce the commercial ingredient. We believe there is a ready market for cost-effective concentrated anthocyanins having application in dietary supplements, sports nutrition, food & beverage and skin care.

Quality verification seal program (core standards and contract services segment). We intend to further develop and expand our offering of "ChromaDex® Quality Verified Seal" program which currently includes (i) supply chain facility audits and inspections to verify compliance with Good Manufacturing Practices as specified by the FDA; (ii) a comprehensive identity testing program for raw materials and finished products; (iii) finished product testing for potential contaminants such as microbials, heavy metals and residual solvents; and (iv) provisions for ongoing monitoring to be performed as part of a quality protocol design and managed by ChromaDex.

Phytochemical libraries (core standards and contract services segment). We intend to continue investing in the development of natural product based libraries by continuing to create these libraries internally as well as through product licensing.

Plant extracts libraries (core standards and contract services segment). We intend to continue our efforts to create an extensive library of plant extracts using our already extensive list of botanical reference materials.

Databases for cross-referencing phytochemicals (core standards and contract services segment). We are working on building a database for cross referencing phytochemicals against an extensive list of plants, including links to references to ethnopharmacological, ethnobotanical, and biological activity, as well as clinical evidence.

Intellectual property (ingredients segment). We plan to utilize our expertise in natural products to license and develop new intellectual property that can be licensed to clients in our target industries.

Process scale manufacturing (ingredients segment/core standards and contact services segment). We intend to invest in a pilot plant facility that has the capability of manufacturing at a process scale for products that we are planning to take to market as well as explore cost saving processes for existing products.

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Sales and Marketing Strategy

Our sales platform for the ingredients segment and core standards and contract services segment is based on a direct, inside technical sales model. We hire technical sales staff with appropriate scientific background in chemistry, biology, biochemistry or other related scientific fields. Our sales staff currently operates out of our Irvine, California office and performs sales duties by using combinations of telemarketing, e-mail, tradeshows and customer visits. It also has customer service responsibilities. We plan to add outside field sales representatives in the future as needed. All sales staff is compensated based on a uniform basic pay model based on salary and performance-based bonus.

The regulatory consulting segment, operating out of Rockville, Maryland, generates scientific and regulatory consulting revenue from an existing well-established list of Fortune 1000 customers and referrals. Our sales staff for the ingredients, reference standards and analytical service business in Irvine, California also generate leads for Spherix.

USA and Canada:

For our ingredients segment and core standards and contract services segment, we employ a range of the following marketing activities to promote and sell our products and services:

- Catalogs, research publications, brochures and flyers
- Tradeshows and conferences
- Newsletters (via e-mail)
- Internet
- Website
- Advertising in trade publications
- Press releases

We intend to continue to use a direct marketing approach to promote our products and services to all markets that we target for direct sales.

International:

For our ingredients segment, most of our customers are based currently in U.S. We are looking to expand into international markets through our international business partners.

For our core standards contract services segment, we use international distributors to market and sell to several foreign countries or markets. The use of distributors in some international markets has proven to be more effective than direct sales. Currently, we have exclusive distribution agreements in place with the following distributors for the following countries or regions:

- Europe (LGC Limited)
- South America (JMC, Inc.)

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- China (MeiTech International LLC)
- Korea (Dongmyung Scientific Co.)
- India (LGC Promochem India Pvt. Ltd.)

We also use non-exclusive distributors for each of the following countries or groups of countries:

- Japan
- Australia and New Zealand
- Indonesia, Malaysia, Singapore and Thailand
- Mexico

We may decide in the future to make non-exclusive distributors who show significant productivity in their designated market exclusive distributors in such markets.

For our regulatory consulting segment, we engage on consulting projects for customers all over the world, including Europe, South America, and Asia. Consulting revenues are generated from an existing well-established list of Fortune 1000 customers and referrals.

Business Market

According to the Natural Marketing Institute, the Dietary Supplement, Functional Food and Beverage, and Natural Personal Care markets represent more than $250 billion in annual worldwide sales. The quality control and assurance of some of the products in these markets are, as previously noted, largely “under regulated.” This scenario leads to the establishment of the basis of one of our business strategies: concentration on the overall content of products, as well as active/marker components, uniformity of production, and toxicology of products in these markets in ways similar to analysis by other companies focused in the pharmaceutical industry. There is an increasing demand for new products, ingredients and ideas for natural products. The pressure for new, innovative products, which are “natural” or “green” based, cuts across all markets including food, beverage, cosmetic and pharmaceutical.

While we believe that doctors and patients have become more receptive to the use of botanical and herbal-based and natural and dietary ingredients to prevent or treat illness and improve quality of life, the medical establishment has conditioned its acceptance on significantly improved demonstration of efficacy, safety and quality control comparable to that imposed on pharmaceuticals. Nevertheless, little is currently known about the constituents, active compounds and safety of many botanical and herbal natural ingredients and few qualified chemists and technology based companies exist to supply the information and products necessary to meet this burgeoning market need. Natural products are complex mixtures of many compounds, with significant variability arising from growing and extraction conditions. The following developments are some that highlight the need for standards control and quality assurance:

- The FDA published its draft guidance for GMPs for dietary supplements on March 13, 2003. The final rule from this guidance was made effective in June 2007, and full compliance was required by June 2010; and
- Regulatory agencies around the world have started to review the need for the regulation of herbal and natural supplements and are considering regulations that will include testing for the presence of toxic or adulterating

compounds, drug/compound interactions and evidence that the products are biologically active for their intended use.

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Business Model

We have taken advantage of both supply chain needs and regulatory requirements such as the GMPs for dietary supplements to build our core standards and contract services segment. We believe that we create value throughout the supply chain of the pharmaceutical, dietary supplements, functional foods and personal care markets. We do this by:

- Combining the analytical methodology and characterization of materials with the technical support for the sale of reference materials by our clients;
- Helping companies to comply with government regulations; and
- Providing value-added solutions to every layer of the supply chain in order to increase the overall quality of products being produced.

In addition, through regulatory consulting segment, we provide product regulatory approval and scientific advisory services to our clients in the food, supplement and pharmaceutical industries with effective solutions to manage potential health and regulatory risks. Our science-based solutions are for both new and existing products that may be subject to product liability and/or exposed to changing scientific standards or public perceptions; literature evaluations; and design and assessment of pre-clinical and clinical safety testing. We specialize in regulatory submissions for food and dietary supplement ingredients. For our clients involved in drug development within the pharmaceutical industry, we provide similar services as well as risk-based strategies, including intellectual property data and compliance gap identification, due diligence assessments and investigational new drug writing. By providing a more comprehensive suite of science-based and regulatory services, we will be able to more efficiently advance products in the dietary supplement, food and beverage, animal health, cosmetic and pharmaceutical markets.

We will continue to expand this aspect of our business and, more importantly, capitalize on additional opportunities in product development and commercialization of various kinds of intellectual property that we have largely discovered and acquired through the sales process associated with our core standards and contract services segment.

Our core standards and contract services segment provides us with the opportunity to become aware of the results from research and screening activities performed on thousands of potential natural product candidates through our relationships with various universities and research institutions. By selecting the most promising ingredients leveraged from this market-based screening model, which is grounded by primary research performed through leading universities and institutions, followed by selective investments in further research and development, new proprietary ingredient technologies can be identified and brought to various markets with a much lower investment cost and an increased chance of success.

One of our proprietary ingredients that we commercialized under this business model through our ingredients segment is nicotinamide riboside (“NR”), for which our brand name is NIAGEN®. NR is found naturally in trace amounts in milk and other foods and is the most efficient B3 vitamin. The potential beneficial effects of NR in humans include increased anti-aging properties, fatty acid oxidation, mitochondrial activity, resistance to negative consequences of high-fat diets, protection against oxidative stress, prevention of peripheral neuropathy and blocking muscle degeneration. Published research has shown that NR is a potent precursor to the co-enzyme nicotinamide adenine dinucleotide (NAD+) in the mitochondria of animals. NAD+ is an important cellular co-factor for improvement of mitochondrial performance and energy metabolism. The Company has built a significant patent portfolio pertaining to NR by separately acquiring patent rights from Cornell University, Dartmouth College and Washington University. We have successfully completed the first human clinical trial using NR and the results demonstrated that a single dose of NR resulted in statistically significant increases NAD+ in health human volunteers. In addition, NR

was also found to be safe as no adverse events were observed throughout the clinical trial. In 2015, NR was recognized by the FDA as a “New Dietary Ingredient.” NR was also “Generally Recognized As Safe” by an independent panel of expert toxicologists.

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Another one of these proprietary ingredients is pterostilbene, for which is marketed and sold under our brand name, pTeroPure®. Pterostilbene is a polyphenol and a powerful antioxidant that shows promise in a range of health related fields. We have exclusive in-licensed patents and patents pending related to the use of pterostilbene for a number of these benefits, and have filed additional patents related to supplementary benefits, such as a patent jointly filed with University of California at Irvine related to its effects on non-melanoma skin cancer. We have successfully conducted a clinical trial, together with the University of Mississippi, related to its blood pressure lowering effects and expect to conduct additional clinical trials on pterostilbene and anticipate entering the dietary supplement and, if clinical results are favorable, the pharmaceutical market. We believe that we also have opportunities in the skin care market and will continue to investigate developing these opportunities internally or through third party partners. We anticipate conducting additional clinical trials on NR, pterostilbene and other compounds in our pipeline to provide differentiation as we market these proprietary ingredients and support various health-related claims or obtain additional regulatory clearances.

We continue to identify and in-license novel, proprietary ingredients with significant potential health benefits. Among these next generation compounds are pterostilbene and caffeine co-crystal, which allows formulators of energy products to reduce the amount of caffeine in their products, and anthocyanins, which are compounds responsible for the dark pigment found in certain berries and flowers. Like NIAGEN® and pTeroPure®, these compounds also have potential in multiple markets.

Government Regulation

Some of our operations for ingredients segment and core standards and contract services segment are subject to regulation by various United States federal agencies and similar state and international agencies, including the FDA, the Federal Trade Commission (“FTC”), the Department of Commerce, the Department of Transportation, the Department of Agriculture and other state and international agencies. These regulators govern a wide variety of production activities, from design and development to labeling, manufacturing, handling, selling and distributing of products. From time to time, federal, state and international legislation is enacted that may have the effect of materially increasing the cost of doing business or limiting or expanding our permissible activities. We cannot predict whether or when potential legislation or regulations will be enacted, and, if enacted, the effect of such legislation, regulation, implementation, or any implemented regulations or supervisory policies would have on our financial condition or results of operations. In addition, the outcome of any litigation, investigations or enforcement actions initiated by state or federal authorities could result in changes to our operations being necessary and in increased compliance costs.

FDA Regulation

Dietary supplements are subject to FDA regulations. For example, the FDA’s final rule on GMPs for dietary supplements published in June 2007 requires companies to evaluate products for identity, strength, purity and composition. These regulations in some cases, particularly for new ingredients, require a notification that must be submitted to the FDA along with evidence of safety. In addition, depending on the type of product, whether a dietary supplement, cosmetic, food, or pharmaceutical, the FDA, under the Food, Drug and Cosmetic Act, or FDCA, can regulate:

ingredient testing

- product testing;
- ingredient testing;

- documentation process, batch records, specifications;
- product labeling;
- product manufacturing and storage;
- New Dietary Ingredient (NDI) status;
- health claims, advertising and promotion; and
- product sales and distribution.

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The FDCA has been amended several times with respect to dietary supplements, most notably by the Dietary Supplement Health and Education Act of 1994, known as "DSHEA." DSHEA established a new framework for governing the composition and labeling of dietary supplements. Generally, under DSHEA, dietary ingredients that were marketed in the United States before October 15, 1994 may be used in dietary supplements without notifying the FDA. However, a "new" dietary ingredient (a dietary ingredient that was not marketed in the United States before October 15, 1994) is subject to a new dietary ingredient, or NDI, notification that must be submitted to the FDA unless the ingredient has previously been "present in the food supply as an article used for food" without being "chemically altered." An NDI notification must provide the FDA with evidence of a "history of use or other evidence of safety" establishing that the use of the dietary ingredient "will reasonably be expected to be safe." An NDI notification must be submitted to the FDA at least 75 days before the initial marketing of the NDI. There can be no assurance that the FDA will accept the evidence of safety for any NDIs that we may want to commercialize, and the FDA's refusal to accept such evidence could prevent the marketing of such dietary ingredients. The FDA is in the process of developing guidance for the industry that will aim to clarify the FDA's interpretation of the NDI notification requirements, and this guidance may raise new and significant regulatory barriers for NDIs.

In order for any new ingredient developed by us to be used in conventional food or beverage products in the United States, the product would either have to be approved by the FDA as a food additive pursuant to a food additive petition, or FAP, or be generally recognized as safe, or GRAS. The FDA does not have to approve a company's determination that an ingredient is GRAS. However, a company can notify the FDA of its determination. There can be no assurance that the FDA will approve any FAP for any ingredient that we may want to commercialize, or agree with our determination that an ingredient is GRAS, either of which could prevent the marketing of such ingredient.

Advertising Regulation

In addition to FDA regulations, the FTC regulates the advertising of dietary supplements, foods, cosmetics, and over-the-counter, or OTC, drugs. In recent years, the FTC has instituted numerous enforcement actions against dietary supplement companies for failure to adequately substantiate claims made in advertising or for the use of false or misleading advertising claims. These enforcement actions have often resulted in consent decrees and the payment of civil penalties, restitution, or both, by the companies involved. We may be subject to regulation under various state and local laws that include provisions governing, among other things, the formulation, manufacturing, packaging, labeling, advertising and distribution of dietary supplements, foods, cosmetics and OTC drugs.

In addition, The National Advertising Division of the Council of Better Business Bureaus (the "NAD") reviews national advertising for truthfulness and accuracy. The NAD uses a form of alternative dispute resolution, working closely with in-house counsel, marketing executives, research and development departments and outside consultants to decide whether claims have been substantiated.

International

Our international sales for the ingredients segment are subject to foreign government regulations, which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ. In addition, the export by us of certain of our products that have not yet been cleared or approved for domestic distribution may be subject to FDA export restrictions. We may be unable to obtain on a timely basis, if at all, any foreign government or United States export approvals necessary for the marketing of our products abroad.

Regulation in Europe is exercised primarily through the European Union, which regulates the combined market of each of its member states. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to dietary ingredients.

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Major Customers

For our ingredients segment, there were two customers who accounted for more than 10% the Company's total sales in the last three years. In 2015, Customer B in our ingredients segment accounted for 11.0% of the Company's total sales. Customer B accounted for less than 10% of the Company's total sales for the years 2014 and 2013. During the year 2014, Customer A in our ingredients segment accounted for 10.2% of the Company's total sales. Customer A accounted for less than 10% of the Company's total sales for the years 2015 and 2013.

Generally, we do not depend upon a single customer, or a few customers and the loss of any one or more would not have a material adverse effect on the ingredients segment or the Company. However, due to the volume of ingredients we are selling in relation to the overall Company's sales, we do expect that few of our customers at times may account for more than 10% of the Company's sales.

For the core standards and contract services segment and the regulatory consulting segment, we did not have any customers who accounted for more than 10% of the Company's total sales in the last three years.

Competitive Business Conditions

For our ingredients segment, we face little direct competition as the new ingredients we offer, such as NIAGEN® and pTeroPure® are backed by intellectual properties exclusively licensed to us. We, however, face strong indirect competition from other ingredient suppliers who may supply alternative ingredients that may have similar characteristics compared to the ingredients we offer. Below is a list of some of the competitors for our ingredients segment.

Ingredients Business Segment Competitors

- Royal DSM (the Netherlands)
- Glanbia plc (Ireland)
- BASF (Germany)
- Sabinsa Corporation (India/USA)

For the core standards and contract services segment, we face competition within the standardization and quality testing niche of the natural products market, though we know of no other companies that offer both reference standards and testing to their customers. Below is a current list of certain competitors. These competitors have already developed reference standards or contract services or are currently taking steps to develop botanical standards or contract services. Of the competitors listed, some currently sell fine chemicals, which, by default, are sometimes used as reference standards, and others are closely aligned with our market niche so as to reduce any barriers to entry if these companies wish to compete. Some of these competitors currently offer similar services and have the scale and resources to compete with us for larger customer accounts. Because some of our competitors are larger in total size and capitalization, they likely have greater access to capital markets, and are in a better position than we are to compete nationally and internationally.

Core Standards and Contract Services Segment Competitors

- Sigma-Aldrich (USA)

- Phytolab (Germany)
- US Pharmacopoeia (USA)
- Extrasynthese (France)
- Covance (USA)

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- Eurofins (ERF) (France)
- Silliker Canada Co. (Canada)

For the regulatory consulting segment, there are numerous competitors, including some that are much larger companies with more resources. The success in winning and retaining clients is heavily dependent on the efforts and reputation of our consultants. We believe the barriers to entry in particular areas of our consulting expertise are low.

Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts, Including Duration

For our ingredients segment, we currently protect our intellectual property through patents, trademarks, designs and copyrights on our products and services. Our business strategies is to use the intellectual property harnessed from our core standards and contract services segment as the basis for providing new proprietary ingredients to our customers. Our strategy is to develop these proprietary ingredients on our own as well as to license our intellectual property to companies who will commercialize it. We anticipate that the net result will be a long term flow of intellectual property milestone and royalty payments for us.

The following table sets forth our existing patents and those to which we have licensed rights:

Patent Number	Title	Filing Date	Issued Date	Expires	Licensor
6,852,342	Compounds for altering food intake in humans	3/26/2002	2/8/2005	2/12/2022	Co-owned by Avoca, Inc. and ChromaDex
7,205,284	Potent immunostimulants from microalgae	7/10/2001	4/17/2007	3/9/2022	Licensed from University of Mississippi
7,776,326	Methods and compositions for treating neuropathies	6/3/2005	8/17/2010	6/3/2025	Licensed from Washington University
7,846,452	Potent immunostimulatory extracts from microalgae	7/28/2005	10/7/2010	7/28/2025	Licensed from University of Mississippi
8,106,184	Nicotinyl Riboside Compositions and Methods of Use	11/17/2006	1/31/2012	11/17/2026	Licensed from Cornell University
8,114,626	Yeast strain and method for using the same to produce Nicotinamide Riboside	3/26/2009	2/14/2012	3/26/2029	Licensed from Dartmouth College
8,133,917	Pterostilbene as an agonist for the peroxisome proliferator-activated receptor alpha isoform	10/25/2010	3/13/2012	10/25/2030	Licensed from the University of Mississippi and U.S. Department of Agriculture

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8,197,807	Nicotinamide Riboside Kinase compositions and Methods for using the same	11/20/2007	6/12/2012	11/20/2027	Licensed from Dartmouth College
8,227,510	Combine use of pterostilbene and quercetin for the production of cancer treatment medicaments	7/19/2005	7/24/2012	7/19/2025	Licensed from Green Molecular S.L.
8,252,845	Pterostilbene as an agonist for the peroxisome proliferator-activated receptor alpha isoform	2/1/2012	8/28/2012	2/1/2032	Licensed from the University of Mississippi and U.S. Department of Agriculture
8,318,807	Pterostilbene Caffeine Co-Crystal Forms	7/30/2010	11/27/2012	7/30/2030	Licensed from Laurus Labs Private Limited
8,383,086	Nicotinamide Riboside Kinase compositions and Methods for using the same	4/12/2012	2/26/2013	4/12/2032	Licensed from Dartmouth College
8,524,782	Key intermediate for the preparation of Stilbenes, solid forms of Pterostilbene, and methods for making the same	6/1/2009	9/3/2013	6/1/2029	Licensed from Laurus Labs Private Limited
8,809,400	Method to Ameliorate Oxidative Stress and Improve Working Memory Via Pterostilbene Administration	6/10/2008	8/19/2014	6/10/2028	Licensed from the University of Mississippi and U.S. Department of Agriculture
8,841,350	Method for treating non-melanoma skin cancer by inducing UDP-Glucuronosyltransferase activity using pterostilbene	5/8/2012	9/22/2014	5/8/2032	Co-owned by ChromaDex and University of California

Manufacturing

For our ingredients segment and our core standards and contract services segment, we currently utilize third-party manufacturers to produce and supply the ingredients. Following the receipt of products or product components from third-party manufacturers, we currently inspect products, as needed. We expect to reserve the right to inspect and ensure conformance of each product and product component to our specifications. We will also consider manufacturing certain products or product components internally, if our capacity permits, when demand or quality requirements make it appropriate to do so.

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For certain reference standards, ChromaDex Analytics operates laboratory operations and a manufacturing facility for our core standards and contract services segment. We currently maintain our own manufacturing equipment and have the ability to manufacture certain products in limited quantities, ranging from milligrams to kilograms. We intend to contract for the manufacturing of products that we develop and enter into strategic relationships or license agreements for sales and marketing of products that we develop when the quantities we require exceed our capacity at our Boulder, Colorado facility.

We intend to work with manufacturing companies that can meet the standards imposed by the FDA, the International Organization for Standardization, or "ISO," and the quality standards that we will require for our own internal policies and procedures. We expect to monitor and manage supplier performance through a corrective action program developed by us. We believe these manufacturing relationships can minimize our capital investment, help control costs, and allow us to compete with larger volume manufacturers of dietary supplements, phytochemicals and ingredients.

Following the receipt of products or product components from third-party manufacturers, we currently inspect products, as needed. We expect to reserve the right to inspect and ensure conformance of each product and product component to our specifications. We will also consider manufacturing certain products or product components internally, if our capacity permits, when demand or quality requirements make it appropriate to do so.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

We believe that we have identified reliable sources and suppliers of ingredients, chemicals, phytochemicals and reference materials that will provide products in compliance with our guidelines.

Research and Development

For our ingredients segment, we have completed the first human clinical trial on our proprietary ingredient nicotinamide riboside ("NR") and the results demonstrated that a single dose of NR resulted in statistically significant increases in the co-enzyme nicotinamide adenine dinucleotide (NAD+) in healthy human volunteers. In addition, NR was also found to be safe as no adverse events were observed. In 2015, NR was recognized by the FDA as a "New Dietary Ingredient." NR was also "Generally Recognized As Safe" by an independent panel of expert toxicologists.

We have also successfully conducted a clinical trial, together with the University of Mississippi, on our proprietary ingredient pterostilbene for its blood pressure lowering effects. We expect to conduct additional clinical trials on this compound and we anticipate entering the dietary supplement and, if clinical results are favorable, possibly the pharmaceutical markets as well. We also have completed a study on our proprietary ingredient pterostilbene with caffeine co-crystal. The first human study of this ingredient demonstrated that it delivers 30 percent more caffeine, stays in the blood stream longer, and is absorbed more slowly than ordinary caffeine. We anticipate conducting additional clinical trials on NR and other compounds in our pipeline to provide differentiation as we market these proprietary ingredients and support various health-related claims or obtain additional regulatory clearances.

Research and development costs for our ingredients segment for the fiscal years ended January 2, 2016, January 3, 2015 and December 28, 2013 were approximately $892,000, $514,000 and $134,000, respectively.

Environmental Compliance

We will incur significant expense in complying with GMPs and safe handling and disposal of materials used in our research and manufacturing activities. We do not anticipate incurring additional material expense in order to comply with Federal, state and local environmental laws and regulations.

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Working Capital

The Company's working capital at the end of years 2015, 2014 and 2013 was approximately $4.4 million, $2.2 million and $1.6 million, respectively. The Company measures working capital by adding trade receivables and inventories, and subtracting accounts payable. The majority of the working capital is consumed by our ingredients segment as the operations require a large amount of inventory to be on hand. As the ingredients segment grows, more working capital will likely be needed to support the operations. As of January 2, 2016, the Company had approximately $7.2 million of inventory for our ingredients segment, which represented approximately 38% of the Company's total assets.

Backlog Orders

For our ingredients segment, we have minimal backlog orders as we carry inventory on hand for most of the ingredients we offer and we ship upon the receipt of customer's purchase orders.

For the core standards and contract services segment, we normally have a small backlog of orders for reference standards. These orders amount to approximately $25,000 or less. Because we carry 5,000 different reference standards, we may not always have the items in stock at the time of customers' orders. These backlog orders are normally fulfilled within 2 to 3 months.

Facilities

For information on our facilities, see "Properties" in Item 2 of this Form 10-K.

Employees

As of January 2, 2016, ChromaDex (including ChromaDex Analytics and Spherix Consulting, Inc.) had 82 employees, 80 of whom were full-time and 2 of whom were part-time. We consider our relationships with our employees to be satisfactory. None of our employees is covered by a collective bargaining agreement.

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 together with all other information contained in this Form 10-K before making investment decisions with respect to our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations and our future growth prospects would be materially and adversely affected. Under these circumstances, the trading price and value of our common stock could decline, resulting in a loss of all or part of your investment. The risks and uncertainties described in this Form 10-K 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 affect our business operations.

Risks Related to our Company and our Business

Our cash flows and capital resources may be insufficient to make required payments on our indebtedness and future indebtedness.

On September 29, 2014, we entered into a loan and security agreement (the "Loan Agreement") with Hercules Technology II, L.P., as lender ("Lender") and Hercules Technology Growth Capital, Inc., as agent. Lender provided us with access to a term loan of up to $5 million. The first advance and second advance, if any, were to be repaid in equal monthly installments of principal and interest (mortgage style) through the loan's maturity on April 1, 2018, following

an initial interest-only period that was to conclude on October 31, 2015. The remaining $2.5 million of the term loan was to be drawn down in part or in full at our option at any time but no later than July 31, 2015. The term loan bears interest at the rate per year equal to the greater of either (i) 9.35% plus the prime rate as reported in The Wall Street Journal minus 3.25%, or (ii) 9.35%.

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On June 17, 2015, we and Hercules Technology II, L.P entered into Amendment No. 1 (the "Amendment") to the Loan Agreement. Pursuant to the Amendment, the parties agreed that the interest only period would be extended to March 31, 2016, with monthly installements of principal and interest commencing on April 1, 2016. The maturity date remains unchanged at April 1, 2018 and any remaining principal balance of the loan and all unpaid interest is due on the maturity date. The Amendment became effective on June 18, 2015 upon the funding of the full amount of the $2.5 million second advance. For further details on the Loan Agreement, please refer to Note 7. Loan Payable appearing on Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

As of January 2, 2016 and March 16, 2016, we had $5.0 million of indebtedness under the Loan Agreement. Such indebtedness could have important consequences to you. For example, it could:

- make it difficult for us to satisfy our other debt obligations;
- make us more vulnerable to general adverse economic and industry conditions;
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions and other general corporate requirements;
- expose us to interest rate fluctuations because the interest rate on the debt under the Loan Agreement is variable;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow for operations and other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a competitive disadvantage compared to competitors that may have proportionately less debt and greater financial resources.

In addition, our ability to make scheduled payments or refinance our obligations depends on our successful financial and operating performance, cash flows and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business and other factors, many of which are beyond our control. These factors include, among others:

- economic and demand factors affecting our industry;
- pricing pressures;
- increased operating costs;
- competitive conditions; and
- other operating difficulties.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. In the event that we are required to dispose of material assets or operations to meet our debt service and other obligations, the value realized on such assets or operations will depend on market conditions and the availability of

buyers. Accordingly, any such sale may not, among other things, be for a sufficient dollar amount. Our obligations pursuant to the Loan Agreement are secured by a security interest in all of our assets, exclusive of intellectual property. The foregoing encumbrances may limit our ability to dispose of material assets or operations. We also may not be able to restructure our indebtedness on favorable economic terms, if at all.

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We may incur additional indebtedness in the future, including pursuant to the Loan Agreement. Our incurrence of additional indebtedness would intensify the risks described above.

The Loan Agreement contains various covenants limiting the discretion of our management in operating our business.

The Loan Agreement contains, subject to certain carve-outs, various restrictive covenants that limit our management's discretion in operating our business. In particular, these instruments limit our ability to, among other things:

- incur additional debt;
- grant liens on assets;
- make investments, including capital expenditures;
- sell or acquire assets outside the ordinary course of business; and
- make fundamental business changes.

If we fail to comply with the restrictions in the Loan Agreement, a default may allow the creditors under the relevant instruments to accelerate the related debt and to exercise their remedies under these agreements, which will typically include the right to declare the principal amount of that debt, together with accrued and unpaid interest and other related amounts, immediately due and payable, to exercise any remedies the creditors may have to foreclose on assets that are subject to liens securing that debt and to terminate any commitments they had made to supply further funds. The Loan Agreement governing our indebtedness also contains various covenants that may limit our ability to pay dividends.

We have a history of operating losses and we may need additional financing to meet our future long-term capital requirements.

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 $2,771,000, $5,388,000 and $4,420,000 for the years ended January 2, 2016, January 3, 2015 and December 28, 2013, respectively. As of January 2, 2016, our accumulated deficit was approximately $42.3 million. We have not achieved profitability on an annual basis. We may not be able to reach a level of revenue to achieve profitability. If our revenues grow slower than anticipated, or if operating expenses exceed expectations, then we may not be able to achieve profitability in the near future or at all, which may depress our stock price.

While we anticipate that our current cash, cash equivalents and cash generated from operations will be sufficient to meet our projected operating plans through at least March 18, 2017, 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. In the event that we are unable to obtain additional financing, we may be unable to implement our business plan. Even with such financing, we have a history of operating losses and there can be no assurance that we will ever become profitable.

Our short-term capital needs are uncertain and we may need to raise additional funds. Based on current market conditions, such funds may not be available on acceptable terms or at all.

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We anticipate that our current cash and cash equivalents and cash generated from operations will be sufficient to implement our operating plan through at least March 18, 2017. 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.

As a result of these factors, we may seek to raise additional capital prior to March 18, 2017 both to meet our projected operating plans after March 18, 2017 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.

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 line 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.

No Assurance of Successful Expansion of Operations.

Our significant increase in the scope and the scale of our product launch, 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 its results of operations.

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The success of our 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.

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 particular 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, whether or not 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 an ingredient supplier, marketer and manufacturer of 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.

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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.

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

We depend greatly on Frank L. Jaksch Jr., Thomas C. Varvaro and Troy A. Rhonemus who are our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer, 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.

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;
- our ability to attract and retain key personnel in a timely and cost effective manner;
- technical difficulties;

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- 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;

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- 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.

If we fail to maintain adequate quality standards for our products and services, our business may be adverselyaffected 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.

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In the event a competitor infringes upon 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. 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.

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. 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 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. 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 product 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. Without access to these technologies or suitable design-around or alternative technology options, our ability to conduct our business could be impaired significantly.

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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 or on terms favorable to us. 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.

If we are unable to establish or maintain sales, marketing and distribution capabilities or enter into and 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 rights to our product lines and/or technologies at favorable prices, develop a sales and marketing force, or enter into arrangements with others to market and sell our products. In addition to being expensive, developing and maintaining such a sales force is time-consuming, and could delay or limit the success of any product launch. We may not be able to develop this capacity on a timely basis or at all. Qualified direct sales personnel with experience in the phytochemical 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.

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

Our 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.

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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 seriously 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 advance 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 under-pricing 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 for the production of 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 need to increase the size of our organization, and we may be unable to manage rapid growth effectively.

Our failure to manage growth effectively could have a material and adverse effect on our business, results of operations and financial condition. We anticipate that a period of significant expansion will be required to address possible acquisitions of business, products, or rights, and potential internal growth to handle licensing and research activities. This expansion will place a significant strain on management, operational and financial resources. To manage the expected growth of our operations and personnel, we must both improve our existing operational and financial systems, procedures and controls and implement new systems, procedures and controls. We must also expand our finance, administrative, and operations staff. Our current personnel, systems, procedures and controls may not adequately support future operations. Management may be unable to hire, train, retain, motivate and manage necessary personnel or to identify, manage and exploit existing and potential strategic relationships and market opportunities.

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Risks Associated with Acquisition Strategy.

As part of our business strategy, we intend to consider acquisitions of similar or complementary businesses. 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 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.

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.

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.

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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.

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 customer's 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 GMPs, 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 the United States, strictly regulate these 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.

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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;
- loss of any strategic relationship;
- industry developments, including, without limitation, changes in healthcare policies or practices;
- economic and other external factors;
- 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 common stock is and likely will remain subject to the SEC's "penny stock" rules, which may make our shares more difficult to sell.

Because the price of our common stock is currently and is likely to remain less than $5.00 per share, it is expected to be classified as a "penny stock." The SEC's rules regarding penny stocks have the effect of reducing trading activity in our shares, making it more difficult for investors to sell them. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies;
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has received the required risk disclosure document before a transaction in a "penny stock" can be completed; and

- give bid and offer quotations and broker and salesperson compensation information to the customer orally or in writing before or with the confirmation.

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These rules make it more difficult for broker-dealers to effectuate customer transactions and trading activity in our securities and may result in a lower trading volume of our common stock and lower trading prices.

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. Our common stock is currently traded on the OTC Markets where they have historically been thinly traded, if at all, meaning that the number of persons interested in purchasing our common stock at or near bid prices at any given time may be relatively small or non-existent.

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, weeks or months 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.

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. The management has limited experience as a management team in a public company and as a result projections may not be made timely or set at 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 SEC.

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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 January 2, 2016, we had outstanding options exercisable for an aggregate of 15,734,755 shares of common stock at a weighted average exercise price of $1.15 per share and outstanding warrants exercisable for an aggregate of 1,269,020 shares of common stock at a weighted average exercise price of $1.34 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. Properties

As of January 2, 2016, we lease approximately 15,000 square feet of office space in Irvine, California with 5 years remaining on the lease, approximately 13,000 square feet of space for laboratory manufacturing in Boulder, Colorado with 4 months remaining on the lease, and approximately 1,700 square feet of office space in Rockville, Maryland with 4 months remaining on the lease. We also rent an apartment with approximately 1,000 square feet in Foothill Ranch, California, and an apartment with less than 1,100 square feet in Longmont, Colorado. We use the apartments to accommodate our traveling employees to each of our California and Colorado locations. We do not own any real estate. For the year ended January 2, 2016, our total annual rental expense was approximately $536,000.

Subsequent to the year ended January 2, 2016, we entered into a lease amendment to extend the term of the lease for our research facility located in Boulder, Colorado through April 2023.

Subsequent to the year ended January 2, 2016, we entered into a lease amendment to lease an office space of approximately 2,300 square feet located in Rockville, Maryland through April 2021.

Item 3. Legal Proceedings

We are not involved in any legal proceedings which management believes may have a material adverse effect on our business, financial condition, operations, cash flows, or prospects. However, the Company from time to time is involved in legal proceedings in the ordinary course of our business, which can include employment claims, product claims and patent infringements. We do not believe that any of these claims and proceedings against us as they arise are likely to have, individually or in the aggregate, a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since November 2014, we have been quoted on the top tier of the OTC Markets Group, Inc. (the "OTCQX") under the symbol "CDXC." From April 2010 to November 2014, we have been quoted on the middle tier of the OTC Markets Group, Inc. (the "OTCQB") under the symbol "CDXC." OTCQX and OTCQB are networks of securities dealers who buy and sell stock. The dealers are connected by a computer network that provides information on current "bids" and "asks", as well as volume information.

The following table sets forth the range of high and low closing bid quotations for ChromaDex common stock for each of the periods indicated as reported by OTCQX and OTCQB. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Fiscal Year Ending January 2, 2016

Quarter Ended	High	Low
January 2, 2016	$1.52	$1.12
October 3, 2015	$1.42	$1.02
July 4, 2015	$1.48	$1.13
April 4, 2015	$1.54	$0.85

Fiscal Year Ending January 3, 2015

Quarter Ended	High	CLow
January 3, 2015	$1.25	$0.84
September 27, 2014	$1.46	$1.02
June 28, 2014	$1.90	$1.21
March 29, 2014	$2.08	$1.41

On March 10, 2016, the closing bid quotation was $1.49.

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than $5.00, other than securities registered on certain national securities exchanges, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction;

(c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

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In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Performance Graph

The chart below compares the annual percentage change in the cumulative total return on our common stock with the NASDAQ Capital Market Composite Index and the S&P SmallCap 600 Health Care Index. The chart shows the value as of January 2, 2016, of $100 invested on January 1, 2011. The stock price performance below is not necessarily indicative of future performance.

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	1/1/11	12/31/11	12/29/12	12/28/13	1/3/15	1/2/16
ChromaDex Corporation	100.00	40.44	40.85	117.65	66.18	89.71
NASDAQ Composite	100.00	100.62	116.97	166.27	188.90	200.15
S&P SmallCap 600 Health Care	100.00	90.92	104.60	149.33	158.97	180.15

Holders of Our Common Stock

As of March 10, 2016, we had approximately 64 registered holders of record of our common stock.

Dividends

We have not declared or paid any cash dividends on our common stock during either of the two most recent fiscal years and have no current intention to pay any cash dividends. Our ability to pay cash dividends is governed by applicable provisions of Delaware law and is subject to the discretion of our Board of Directors.

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Item 6. Selected Financial Data

The annual financial information set forth below has been derived from our audited consolidated financial statements. The information should be read in connection with, and is qualified in its entirety by reference to, Management's Discussion and Analysis, the consolidated financial statements and notes included elsewhere in this report and in our SEC filings.

	Years Ended				
	2015	2014	2013	2012	2011
Consolidated Statement of Operations Data					
Sales, net	$22,014,140	$15,313,179	$10,160,964	$11,610,494	$8,112,610
Cost of sales	13,533,132	9,987,514	7,027,828	9,335,057	5,640,791
Gross profit	8,481,008	5,325,665	3,133,136	2,275,437	2,471,819
Operating expenses:					
Sales and marketing	2,326,788	2,136,584	2,357,605	5,520,141	2,539,252
Research and development	891,601	513,671	134,040	141,573	96,788
General and administrative	7,416,451	7,860,930	4,982,976	8,250,157	7,700,018
Loss from investment in affiliate	-	45,829	44,961	-	-
Operating expenses	10,634,840	10,557,014	7,519,582	13,911,871	10,336,058
Operating loss	(2,153,832)	(5,231,349)	(4,386,446)	(11,636,434)	(7,864,239)
Nonoperating income (expenses):					
Interest income	3,325	2,013	1,251	3,014	1,397
Interest expense	(616,033)	(158,849)	(34,330)	(29,006)	(32,142)
Nonoperating expenses	(612,708)	(156,836)	(33,079)	(25,992)	(30,745)
Loss before income taxes	(2,766,540)	(5,388,185)	(4,419,525)	(11,662,426)	(7,894,984)
Provision for income taxes	(4,527)	-	-	-	-
Net loss	$(2,771,067)	$(5,388,185)	$(4,419,525)	$(11,662,426)	$(7,894,984)
Basic and Diluted loss per common share	$(0.03)	$(0.05)	$(0.04)	$(0.13)	$(0.12)
Basic and Diluted weighted average common shares outstanding	107,632,022	106,459,379	99,987,443	90,268,802	68,306,812

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	At The End of Year				
	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data					
Cash	$5,549,672	$3,964,750	$2,261,336	$520,000	$420,152
Working capital (1)	4,400,432	2,189,442	1,602,008	3,717,610	1,379,025
Total assets	18,749,209	11,516,847	8,986,892	9,034,521	6,269,905
Long term debt	3,345,335	1,977,113	-	-	-
Total stockholders' equity	$5,274,674	$3,998,391	$5,665,451	$3,993,329	$2,561,286
(1) Trade receivables plus inventories less accounts payable.					

	Years Ended				
	2015	2014	2013	2012	2011
Consolidated Cash Flow Data					
Net cash used in operating activities	$(2,111,138)	$(2,580,406)	$(3,906,011)	$(10,119,713)	$(4,098,829)
Net cash provided by (used in) investing activities	(647,731)	1,590,275	998,651	(76,565)	(176,663)
Net cash provided by financing activities	$4,343,791	$2,693,545	$4,648,696	$10,296,126	$2,469,185

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of financial condition and results of operation, together with the financial statements and the related notes appearing in Item 8 of this report.

Overview

We are a natural products company that leverage our complementary business units to discover, acquire, develop and commercialize patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. In addition to our ingredient technologies unit, we also have business units focused on natural product fine chemicals (known as “phytochemicals”), chemistry and analytical testing services, and product regulatory and safety consulting (known as Spherix Consulting). As a result of our relationships with leading universities and research institutions, we are able to discover and license early stage, intellectual property-backed ingredient technologies. We then utilize our in-house chemistry, regulatory and safety consulting business units to develop commercially viable ingredients. Our ingredient portfolio is backed by clinical and scientific research, as well as extensive intellectual property protection.

The discussion and analysis of our financial condition and results of operations are based on the ChromaDex financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires making 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.

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We anticipate that our current cash and cash generated from operations will be sufficient to meet our projected operating plans through at least March 18, 2017. We may, however, seek additional capital prior to March 18, 2017, both to meet our projected operating plans after March 18, 2017 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. If we are unable to establish small to medium scale production capabilities through our own plant or though collaboration we may be unable to fulfill our customers' requirements. This may cause a loss of future revenue streams as well as require us to look for third party vendors to provide these services. These vendors may not be available, or charge fees that prevent us from pricing competitively within our markets.

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 FDA, FTC 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.

Results of Operations

Our net sales for the twelve-month periods ended January 2, 2016, January 3, 2015 and December 28, 2013 were approximately $22,014,000, $15,313,000 and $10,161,000, respectively. We incurred a net loss of approximately $2,771,000, $5,388,000 and $4,420,000 for the twelve-month periods ended January 2, 2016, January 3, 2015 and December 28, 2013, respectively. This equated to $0.03, $0.05 and $0.04 losses per basic and diluted share for the twelve-month periods ended January 2, 2016, January 3, 2015 and December 28, 2013, respectively.

Over the next two years, we plan to continue to increase research and development efforts for our line of proprietary ingredients, subject to available financial resources.

	Twelve months ending		
	Jan. 2, 2016	Jan. 3, 2015	Dec. 28, 2013
Sales	$22,014,140	$15,313,179	$10,160,964
Cost of sales	13,533,132	9,987,514	7,027,828
Gross profit	8,481,008	5,325,665	3,133,136
Operating expenses -Sales and marketing	2,326,788	2,136,584	2,357,605
-Research and development	891,601	513,671	134,040
-General and administrative	7,416,451	7,860,930	4,982,976
-Loss from investment in affiliate	-	45,829	44,961
Nonoperating -Interest income	3,325	2,013	1,251
-Interest expenses	(616,033)	(158,849)	(34,330)

Provision for income taxes	(4,527)	-	-
Net loss	$(2,771,000)	$(5,388,185)	$(4,419,525)

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Year Ended January 2, 2016 Compared to Year Ended January 3, 2015

Net Sales. Net sales consist of gross sales less discounts and returns.

	Twelve months ending			
	January 2, 2016	January 3, 2015	Change	
Net sales:				
Ingredients	$12,542,000	$6,857,000	83	%
Core standards and contract services	8,419,000	7,487,000	12	%
Scientific and regulatory consulting	1,053,000	969,000	9	%
Total net sales	$22,014,000	$15,313,000	44	%

- The increase in sales for the ingredients segment is due to increased sales throughout most of the ingredients we sell, with “NIAGEN®” contributing a majority of the increase.

- The increase in sales for the core standards and contract services segment is primarily due to increased sales of analytical testing and contract services.

- The increase in sales for the scientific and regulatory consulting segment is due to the timing of completion of consulting projects for customers.

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

	Twelve months ending					
	January 2, 2016			January 3, 2015		
	Amount	% of net sales		Amount	% of net sales	
Cost of sales:						
Ingredients	$6,664,000	53	%	$4,257,000	62	%
Core standards and contract services	6,347,000	75	%	5,141,000	69	%
Scientific and regulatory consulting	522,000	50	%	589,000	61	%
Total cost of sales	$13,533,000	61	%	$9,987,000	65	%

The cost of sales, as a percentage of net sales, decreased 4%.

- The decrease in cost of sales, as a percentage of net sales, for the ingredients segment is largely due to price reductions from our suppliers through increased purchase volumes.

- The increase in cost as a percentage of net sales for the core standards and contract services segment is mainly due to increased costs in fine chemical reference standards as we reduced the carrying values for the portion of the inventory that are considered slow-moving and obsolete.

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- The percentage decrease in cost of sales for the scientific and regulatory consulting segment is largely due to higher utilizations of in-house consulting labor versus 3rd party consultants.

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.

	Twelve months ending			
	January 2, 2016	January 3, 2015	Change	
Gross profit:				
Ingredients	$5,878,000	$2,600,000	126	%
Core standards and contract services	2,072,000	2,346,000	-12	%
Scientific and regulatory consulting	531,000	380,000	40	%
Total gross profit	$8,481,000	$5,326,000	59	%

- The increased gross profit for the ingredients segment is due to the increased sales of the ingredient portfolio we offer, as well as lower prices from our suppliers as a result of increased purchase volumes.

- The decreased gross profit for the core standards and contract services segment is largely due to increased costs in fine chemical reference standards as we reduced the carrying values for the portion of the inventory that are considered slow-moving and obsolete.

- The increased gross profits for the scientific and regulatory consulting segment are largely due to higher utilizations of in-house consulting labor.

Operating Expenses – Sales and Marketing. Sales and Marketing Expenses consist of salaries, advertising and marketing expenses.

	Twelve months ending			
	January 2, 2016	January 3, 2015	Change	
Sales and marketing expenses:				
Ingredients	$1,112,000	$1,081,000	3	%
Core standards and contract services	1,202,000	976,000	23	%
Scientific and regulatory consulting	13,000	80,000	-84	%
Total sales and marketing expenses	$2,327,000	$2,137,000	9	%

- For the ingredients segment, we were able to maintain sales and marketing expenses at a similar level to 2014 despite the significant increase in sales. We do anticipate some increased expenses going forward as we increase marketing efforts for our proprietary ingredients.

- For the core standards and contract services segment, the increases are largely due to hiring additional sales and marketing staff and making certain operational changes. Wages and travel expenses for sales and marketing staff increased by approximately $164,000 in 2015, compared to 2014.

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- For the scientific and regulatory consulting segment, we had significantly reduced sales and marketing expenses compared to 2014 and plan on continuing to do so in the future.

Operating Expenses – Research and Development. Research and Development Expenses mainly consist of clinical trials and process development expenses for our line of proprietary ingredients.

	Twelve months ending			
	January 2, 2016	January 3, 2015	Change	
Research and development expenses:				
Ingredients	$892,000	$514,000	74	%

- All our research and development efforts are for the ingredients segment. In 2015, we increased our research and development efforts with a focus on our “NIAGEN®” brand.

Operating Expenses – General and Administrative. General and Administrative Expenses consist of general company administration, IT, accounting and executive management.

	Twelve months ending			
	January 2, 2016	January 3, 2015	Change	
General and administrative	$7,416,000	$7,861,000	-6	%

- One of the factors that contributed to the decrease in general and administrative expenses was a decrease in share-based compensation. In 2015, our share-based compensation decreased to approximately $1,978,000, compared to approximately $2,917,000 in 2014.

In 2014, we had higher share-based compensation expenses as we awarded an aggregate of 1,090,000 shares of restricted stock to the Company’s officers and members of the board of directors. The fair values of these restricted stock awards were approximately $1,537,000 in aggregate, which were expensed over a period of six months from January 2, 2014 to July 1, 2014.

Nonoperating – Interest Income. Interest income consists of interest earned on money market accounts. Interest income for the twelve-month period ended January 2, 2016, was approximately $3,000, a slight increase compared to approximately $2,000 for the twelve-month period ended January 3, 2015.

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

	Twelve months ending			
	January 2, 2016	January 3, 2015	Change	
Interest expense	$616,000	$159,000	287	%

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- The increase in interest expense was mainly related to the Term Loan Agreement dated September 29, 2014, between the Company and Hercules Technology II, L.P, which the Company drew down first $2.5 million on September 29, 2014 and second $2.5 million on June 18, 2015. For more information on this term loan, please refer to Note 7 of Financial Statements appearing in Part II, Item 8 of this report.

Depreciation and Amortization. For the twelve-month period ended January 2, 2016, we recorded approximately $286,000 in depreciation compared to approximately $223,000 for the twelve-month period ended January 3, 2015. We depreciate our assets on a straight-line basis, based on the estimated useful lives of the respective assets. We amortize intangible assets using a straight-line method over 10 years. In the twelve-month period ended January 2, 2016, we recorded amortization on intangible assets of approximately $45,000 compared to approximately $36,000 for the twelve-month period ended January 3, 2015.

Income Taxes. At January 2, 2016 and January 3, 2015, the Company maintained a full valuation allowance against the entire deferred income tax balance which resulted in an effective tax rate of 0.2% for 2015 and 0% for 2014.

Net cash used in operating activities. Net cash used in operating activities for the twelve-month period ended January 2, 2016 was approximately $2,111,000 as compared to approximately $2,580,000 for the twelve-month period ended January 3, 2015. Along with the net loss, an increase in inventories and trade receivables were the largest uses of cash during the twelve-month period ended January 2, 2016. Net cash used in operating activities for the twelve-month period ended January 3, 2015 largely reflects increase in inventories, trade receivables along with the net loss, as well.

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 provided by (used in) investing activities. Net cash used in investing activities was approximately $648,000 for the twelve-month period ended January 2, 2016, compared to approximately $1,590,000 provided by for the twelve-month period ended January 3, 2015. Net cash used in investing activities for the twelve-month period ended January 2, 2016 mainly consisted of purchases of leasehold improvements and equipment and intangible assets. Net cash provided by investing activities for the twelve-month period ended January 3, 2015 principally consisted of proceeds received from unrelated third parties from the assignment of the Senior Note and the sale of the Preferred Shares. NeutriSci originally issued the Senior Note and the Preferred Shares to the Company as a part of the consideration for the purchase of BluScience product line.

Net cash provided by financing activities. Net cash provided by financing activities was approximately $4,344,000 for the twelve-month period ended January 2, 2016, compared to approximately $2,694,000 for the twelve-month period ended January 3, 2015. Net cash provided by financing activities for the twelve-month period ended January 2, 2016 mainly consisted of proceeds from the 2nd draw of the term loan we entered into with Hercules Technology II, L.P, as well as proceeds from issuance of our common stock and warrants through a private offering to our existing stockholders. Net cash provided by financing activities for the twelve-month period ended January 3, 2015 mainly consisted of proceeds from the loan we entered into with Hercules Technology II, L.P.

Trade Receivables. As of January 2, 2016, we had approximately $2,451,000 in trade receivables as compared to approximately $1,907,000 as of January 3, 2015. This increase was largely due to the increase in our ingredients segment sales.

Inventories. As of January 2, 2016, we had approximately $8,174,000 in inventory, compared to approximately $3,734,000 as of January 3, 3015. This increase was mainly due to increase in inventory for the ingredients business segment, as we were able to obtain a favorable purchase price from the supplier by increasing the purchase

volume. As of January 2, 2016, our inventory consisted of approximately $7,174,000 of bulk ingredients and approximately $1,000,000 of phytochemical reference standards. Bulk ingredients are proprietary compounds sold to customers in larger quantities, typically in kilograms. These ingredients are used by our customers in the dietary supplement, food and beverage, animal health, cosmetic and pharmaceutical industries to manufacture their final products. Phytochemical reference standards are small quantities of plan-based compounds typically used to research an array of potential attributes or for quality control purposes. The Company has approximately 5,000 defined standards and holds a lot of these standards as inventory in small quantities, mostly in grams and milligrams.

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Our normal operating cycle for reference standards is currently longer than one year. Due to the large number of different items we carry, certain groups of these reference standards have sales frequency that is slower than others and varies greatly year to year. In addition, for certain reference standards, the cost saving is advantageous when purchased in larger quantities and we have taken advantage of such opportunities when available. Such factors have resulted in an operating cycle to be more than one year on average. The Company gains competitive advantage through the broad offering of reference standards and it is critical for the Company to continue to expand its library of reference standards it offers for the growth of business. Nevertheless, the Company has recently made changes in its reference standards inventory purchasing practice, which the management believes will result in an improved turnover rate and shorter operating cycle without impacting our competitive advantage.

The Company regularly reviews inventories on hand and reduces the carrying value for slow-moving and obsolete inventory, inventory not meeting quality standards and inventory subject to expiration. The reduction of the carrying value for slow-moving and obsolete inventory is based on current estimates of future product demand, market conditions and related management judgment. Any significant unanticipated changes in future product demand or market conditions that vary from current expectations could have an impact on the value of inventories.

We strive to optimize our supply chain as we constantly search for better and more reliable sources and suppliers of bulk ingredients and phytochemical reference standards. By doing so, we believe we can lower the costs of our inventory, which we can then pass along the savings to our customers. In addition, we are working with our suppliers and partners to develop more efficient manufacturing methods of the raw materials, in an effort to lower the costs of our inventory.

Accounts Payable. As of January 2, 2016, we had $6,224,000 in accounts payable compared to approximately $3,452,000 as of January 3, 2015. This increase was primarily due the purchase of inventory for our ingredients business segment and reflects the timing of payments related.

Advances from Customers. As of January 2, 2016, we had approximately $272,000 in advances from customers compared to approximately $243,000 as of January 3, 2015. These advances are for large-scale consulting projects, contract services and contract research projects where we require a deposit before beginning work. This increase was due to obtaining more of such large-scale projects during the 2nd half of the twelve-month period ended January 2, 2016.

Year Ended January 3, 2015 Compared to Year Ended December 28, 2013

Net Sales. Net sales consist of gross sales less discounts and returns.

	Twelve months ending			
	January 3, 2015	December 28, 2013	Change	
Net sales:				
Ingredients	$6,857,000	$2,430,000	182	%
Core standards and contract services	7,487,000	6,644,000	13	%
Scientific and regulatory consulting	969,000	1,147,000	-16	%
Other	-	(60,000)	-100	%
Total net sales	$15,313,000	$10,161,000	51	%

- The increase in sales for the ingredients segment was due to increased sales of most of the ingredients we sell, “NIAGEN®” in particular, which we launched in the third quarter of 2013.

- The increase in sales for the core standards and contract services segment was due to increased sales of both phytochemical reference standards and contract services.

- The decrease in sales for the scientific and regulatory consulting segment was due to our having completed fewer consulting projects in 2014, than in 2013.

- In 2013, we had net sales of approximately ($60,000) related to our BluScience retail consumer line, which is represented as “Other” in the above table. On March 28, 2013, the Company entered into an asset purchase and sale agreement with NeutriSci International Inc. and consummated the sale of BluScience product line to NeutriSci.

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

	Twelve months ending					
	January 3, 2015			December 28, 2013		
	Amount	% of net sales		Amount	% of net sales	
Cost of sales:						
Ingredients	$4,257,000	62	%	$1,501,000	62	%
Core standards and contract services	5,141,000	69	%	4,894,000	74	%
Scientific and regulatory consulting	589,000	61	%	632,000	55	%
Other	-	-		1,000	-2	%
Total cost of sales	$9,987,000	65	%	$7,028,000	69	%

- The cost of sales as a percentage of net sales for the ingredients segment was identical at 62% for both 2014 and 2013.

- The decrease in cost of sales as a percentage of net sales for the core standards and contract services segment was largely due to increased sales in analytical testing and contract services area, which the sales increased about 13% in 2014 compared to 2013. Fixed labor costs make up the majority of costs for analytical testing and contract services and these fixed labor costs did not increase in proportion to sales.

- The increase in cost of sales as a percentage of net sales for the scientific and regulatory consulting segment was largely due to completing fewer consulting projects during 2014 than during 2013.

- In 2013, we had cost of sales of approximately $1,000 related to our BluScience retail consumer line, which is represented as “Other” in the above table. On March 28, 2013, the Company entered into an asset purchase and sale agreement with NeutriSci International Inc. and consummated the sale of BluScience product line to NeutriSci.

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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	Twelve months ending			
	January 3, 2015	December 28, 2013	Change	
Gross profit:				
Ingredients	$2,600,000	$929,000	180	%
Core standards and contract services	2,346,000	1,750,000	34	%
Scientific and regulatory consulting	380,000	515,000	-26	%
Other	-	(61,000)	-100	%
Total gross profit	$5,326,000	$3,133,000	70	%

- The increased sales throughout our ingredient portfolio, especially for our recently launched “NIAGEN®” was the main factor for the increase in gross profit for the ingredients segment.

- The increased sales of analytical testing and contract services which resulted in a higher labor utilization rate as well as increased fixed cost coverage, was the primary reason for the increase in gross profit for the core standards and contract services segment.

- For the scientific and regulator consulting segment, the decrease in sales which resulted in a lower labor utilization rate was the reason for the decrease in gross profit.

- In 2013, we had gross profit of approximately ($61,000) related to our BluScience retail consumer line, which is represented as “Other” in the above table. On March 28, 2013, the Company entered into an asset purchase and sale agreement with NeutriSci International Inc. and consummated the sale of BluScience product line to NeutriSci.

Operating Expenses – Sales and Marketing. Sales and Marketing Expenses consist of salaries, advertising and marketing expenses.

	Twelve months ending			
	January 3, 2015	December 28, 2013	Change	
Sales and marketing expenses:				
Ingredients	$1,081,000	$752,000	44	%
Core standards and contract services	976,000	1,460,000	-33	%
Scientific and regulatory consulting	80,000	15,000	433	%
Other	-	131,000	-100	%
Total sales and marketing expenses	$2,137,000	$2,358,000	-9	%

- For the ingredients segment, the increase was largely due to increased marketing efforts for our line of proprietary ingredients.

- For the core standards and contract services segment, the decrease was largely due to reduction of sales and marketing staff and a decrease in marketing and advertising spend.

- For the scientific and regulatory consulting segment, the increase was largely due to our increased marketing efforts to raise the awareness of our consulting services within the industry.

- In 2013, we had sales and marketing expenses of approximately $131,000 related to our BluScience retail consumer line, which are represented as “Other” in the above table. On March 28, 2013, the Company entered into an asset purchase and sale agreement with NeutriSci International Inc. and consummated the sale of BluScience product line to NeutriSci.

Operating Expenses – Research and Development. Research and Development Expenses mainly consist of clinical trials and process development expenses for our line of proprietary ingredients.

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	Twelve months ending			
	January 3, 2015	December 28, 2013	Change	
Research and development expenses:				
Ingredients	$514,000	$134,000	284	%

- All our research and development efforts are for the ingredients segment. In 2014, we significantly increased our research and development efforts for our line of proprietary ingredients compared to 2013. In 2014, we conducted safety studies related to our "NIAGEN®" as well as a human clinical trial study on "PURENERGY®."

Operating Expenses – General and Administrative. General and Administrative Expenses consist of general company administration, IT, accounting and executive management.

	Twelve months ending			
	January 3, 2015	December 28, 2013	Change	
General and administrative	$7,861,000	$4,983,000	58	%

- One of the factors that contributed to this increase was an increase in share-based compensation expense. Our share-based compensation expense for the twelve-month period ended January 3, 2015 was approximately $2,917,000 as compared to approximately $1,288,000 for the twelve-month period ended December 28, 2013. During the twelve-month period ended January 3, 2015, the Company recognized expenses for the 1,090,000 shares of restricted stock granted to the Company's officers and members of the board of directors, which resulted in the increase in share-based compensation expenses.

- Another factor that contributed to the increase was an increase in expenses related to the patents we license, including maintenance, consulting, filing and related royalty expenses. Our patent related expenses increased to approximately $815,000 as compared to $294,000 for the twelve-month period ended December 28, 2013.

- In addition, during the twelve-month period ended January 3, 2015, there was an increase of approximately $176,000 in wages and related expenses as a result of hiring additional personnel to support our operations. There was also one-time expense for $125,000 during the twelve-month period ended January 3, 2015, which we have paid as a settlement fee to a certain claimant.

Nonoperating – Interest Income. Interest income consists of interest earned on money market accounts. Interest income for the twelve-month period ended January 3, 2015, was approximately $2,000 as compared to $1,000 for the twelve-month period ended December 28, 2013.

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

	Twelve months ending			
	January 3, 2015	December 28, 2013	Change	
Interest expense	$159,000	$34,000	368	%

-

The increase was largely related to the Loan Agreement the Company entered into with Hercules Technology II, L.P., which the Company has drawn down $2.5 million on September 29, 2014.

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Depreciation and Amortization. For the twelve-month period ended January 3, 2015, we recorded approximately $223,000 in depreciation compared to approximately $246,000 for the twelve-month period ended December 28, 2013. In the twelve-month period ended January 3, 2015, we recorded amortization on intangible assets of approximately $36,000 compared to approximately $24,000 for the twelve-month period ended December 28, 2013.

Income Taxes. At January 3, 2015 and December 28, 2013, the Company maintained a full valuation allowance against the entire deferred income tax balance which resulted in an effective tax rate of zero for 2014 and 2013.

Net cash used in operating activities. Net cash used in operating activities for the twelve-month period ended January 3, 2015 was approximately $2,580,000 as compared to approximately $3,906,000 for the twelve-month period ended December 28, 2013. Along with the net loss, an increase in inventories and trade receivables were the largest uses of cash during the twelve-month period ended January 3, 2015. Net cash used in operating activities for the twelve-month period ended December 28, 2013 largely reflects decrease in accounts payable and increase in inventories, along with the net loss.

Net cash provided by investing activities. Net cash provided by investing activities was approximately $1,590,000 for the twelve-month period ended January 3, 2015, compared to approximately $999,000 for the twelve-month period ended December 28, 2013. Net cash provided by investing activities for the twelve-month period ended January 3, 2015 mainly consisted of proceeds received from unrelated third parties from the assignment of the Senior Note and the sale of the Preferred Shares. NeutriSci originally issued the Senior Note and the Preferred Shares to the Company as a part of the consideration for the purchase of BluScience product line. Net cash provided investing activities for the twelve-month period ended December 28, 2013 mainly consisted of cash consideration received from NeutriSci from the sale of BluScience product line as well as a repayment received from the Senior Note issued by NeutriSci.

Net cash provided by financing activities. Net cash provided by financing activities was approximately $2,694,000 for the twelve-month period ended January 3, 2015, compared to approximately $4,649,000 for the twelve-month period ended December 28, 2013. Net cash provided by financing activities for the twelve-month period ended January 3, 2015 mainly consisted of proceeds from the loan we entered into with Hercules Technology II, L.P. Net cash provided by financing activities for the twelve-month period ended December 28, 2013 mainly consisted of proceeds from issuance of our common stock through a private offering as well as from the exercise of warrants.

Liquidity and Capital Resources

For the twelve-month periods ended January 2, 2016, January 3, 2015 and December 28, 2013, the Company has incurred operating losses of approximately $2,154,000, $5,231,000 and $4,386,000, respectively. Net cash used in operating activities for the twelve-month periods ended January 2, 2016, January 3, 2015 and December 28, 2013 was approximately $2,111,000, $2,580,000 and $3,906,000, respectively. The losses and the uses of cash 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 sales 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 or service expansion plans. Any inability to raise additional financing would have a material adverse effect on us.

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While we anticipate that our current cash, cash equivalents and cash generated from operations will be sufficient to meet our projected operating plans through at least March 18, 2017, we may seek additional capital prior to March 18, 2017, both to meet our projected operating plans through and after March 18, 2017 and to fund our longer term strategic objectives. To the extent we are unable to raise additional cash or generate sufficient revenue to meet our projected operating plans prior to March 18, 2017, we will revise our projected operating plans accordingly.

Dividend Policy

We have not declared or paid any cash dividends on our common stock. We presently intend to retain earnings for use in our operations and to finance our business. Any change in our dividend policy is within the discretion of our board of directors and will depend, among other things, on our earnings, debt service and capital requirements, restrictions in financing agreements, if any, business conditions, legal restrictions and other factors that our board of directors deems relevant.

Off-Balance Sheet Arrangements

During the fiscal years ended January 2, 2016 and January 3, 2015, we had no off-balance sheet arrangements other than ordinary operating leases as disclosed in the accompanying financial statements.

Contractual Obligations and Commitments.

The following table summarizes our contractual obligations and other commitments as of January 2, 2016:

		Payments due by period				
	Total	2016	2017	2018	2019	2020
Loan payable	$5,188,000	$1,370,000	$1,992,000	$1,826,000	$-	$-
Capital leases	754,000	268,000	247,000	198,000	41,000	-
Operating leases	994,000	355,000	225,000	233,000	181,000	-
Purchase obligations	4,228,000	3,592,000	636,000	-	-	-
Total	$11,164,000	$5,585,000	$3,100,000	$2,257,000	$222,000	$-

Loan payable. We have entered into a Loan and Security Agreement with Hercules Technology II, L.P. The $5 million term loan, on which only interest is due through March 31, 2016, will begin to amortize in installment payments of principal and interest starting in April 2016 and continuing through April 2018. There is also an additional $187,500 end of term charge we will be required to pay.

Capital leases. We lease equipment under capitalized lease obligations with a term of typically 4 or 5 years. We make monthly instalment payments for these leases.

Operating leases. We lease our office and research facilities in California, Colorado and Maryland under operating lease agreements that expire on various dates from April 2016 through September 2019. We make monthly payments on these leases.

Purchase obligations. We enter into purchase obligations with various vendors for goods and services that we need for our operations. The purchase obligations for goods and services include inventory, research and development, and outsourced laboratory services.

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Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an ongoing basis, we evaluate these estimates, including those related to the valuation of share-based payments. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in Note 2 of the Financial Statements, set forth in Item 8, the following accounting policies involve the greatest degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue recognition: The Company recognizes sales and the related cost of sales at the time the merchandise is shipped to customers or service is performed, when each of the following conditions have been met: an arrangement exists, delivery has occurred, there is a fixed price, and collectability is reasonably assured. Discounts, returns and allowances related to sales, including an estimated reserve for returns and allowances, are recorded as reduction of revenue.

Shipping and handling fees billed to customers and the cost of shipping and handling fees billed to customers are included in Net sales. Shipping and handling fees not billed to customers are recognized as cost of sales.

Taxes collected from customers and remitted to governmental authorities are excluded from revenue, which is presented on a net basis in the statement of operations.

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 reflected net of valuation allowances. Labor and overhead has been added to inventory that was manufactured or characterized by the Company.

The Company regularly reviews inventories on hand and reduces the carrying value for slow-moving and obsolete inventory, inventory not meeting quality standards and inventory subject to expiration. The reduction of the carrying value for slow-moving and obsolete inventory is based on current estimates of future product demand, market conditions and related management judgment. Any significant unanticipated changes in future product demand or market conditions that vary from current expectations could have an impact on the value of inventories.

Share-based compensation: The Company has an Equity Incentive Plan under which the Board of Directors may grant restricted stock or stock options to employees and non-employees. For employees, share-based compensation cost is recorded for all option grants and awards of non-vested stock based on the grant date fair value of the award, and is recognized over the period the employee is required to provide services for the award. For non-employees, share-based compensation cost is recorded for all option grants and awards of non-vested stock and is remeasured over the vesting term as earned. The expense is recognized over the period the non-employee is required to provide services for the award.

The Company recognizes compensation expense over the requisite service period using the straight-line method for option grants without performance conditions. For stock options that have both service and performance conditions,

the Company recognizes compensation expense using the graded attribution method. Compensation expense for stock options with performance conditions is recognized only for those awards expected to vest.

From time to time, the Company awards shares of its common stock to non-employees for services provided or to be provided. The fair value of the awards are measured either based on the fair market value of stock at the date of grant or the value of the services provided, based on which is more reliably measurable. Since these stock awards are fully vested and non-forfeitable, upon issuance the measurement date for the award is usually reached on the date of the award.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company had an outstanding loan payable of $5.0 million at January 2, 2016. Interest is payable monthly at the greater of either (i) 9.35% plus the prime rate as reported in The Wall Street Journal (the "Prime Rate") minus 3.25%, or (ii) 9.35%. If the Prime Rate rises, the Company will incur more interest expenses. The loan is repayable in installments through April 1, 2018, following an initial interest-only period until March 31, 2016.

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, high 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.

Effects of Inflation

We do not believe that inflation and changing prices during the years ended January 2, 2016, January 3, 2015 and December 28, 2013 had a significant impact on our results of operations.

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Item 8. Financial Statements and Supplementary Data

The financial statements are set forth in the pages listed below.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders of
ChromaDex Corporation

We have audited the accompanying consolidated balance sheets of ChromaDex Corporation and Subsidiaries (the "Company") as of January 2, 2016 and January 3, 2015, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended January 2, 2016, January 3, 2015 and December 28, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ChromaDex Corporation and Subsidiaries, as of January 2, 2016 and January 3, 2015, and the consolidated results of its operations and its cash flows for the years ended January 2, 2016, January 3, 2015 and December 28, 2013 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ChromaDex Corporation and Subsidiaries' internal control over financial reporting as of January 2, 2016, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated March 17, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Marcum llp

Marcum LLP
New York, NY
March 17, 2016

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ChromaDex Corporation and Subsidiaries
Consolidated Balance Sheets
January 2, 2016 and January 3, 2015

	2015	2014
Assets		
Current Assets		
Cash	$5,549,672	$3,964,750
Trade receivables, net of allowances of $367,000 and $38,000, respectively	2,450,591	1,906,709
Inventories	8,173,799	3,734,341
Prepaid expenses and other assets	373,567	292,891
Total current assets	16,547,629	9,898,691
Leasehold Improvements and Equipment, net	1,788,645	1,264,660
Deposits	58,883	57,435
Intangible assets, net	354,052	296,061
Total assets	$18,749,209	$11,516,847
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$6,223,958	$3,451,608
Accrued expenses	1,302,865	853,685
Current maturities of loan payable	1,528,578	223,358
Current maturities of capital lease obligations	219,689	148,278
Customer deposits and other	272,002	234,435
Deferred rent, current	39,529	69,456
Total current liabilities	9,586,621	4,980,820
Loan payable, less current maturities, net	3,345,335	1,977,113
Capital lease obligations, less current maturities	444,589	423,015
Deferred rent, less current	97,990	137,508
Total liabilities	13,474,535	7,518,456
Commitments and contingencies		
Stockholders' Equity		
Common stock, $.001 par value; authorized 150,000,000 shares;		
issued and outstanding 2015 108,010,766 and 2014 105,271,058 shares	108,011	105,271
Additional paid-in capital	47,462,052	43,417,442
Accumulated deficit	(42,295,389)	(39,524,322)
Total stockholders' equity	5,274,674	3,998,391
Total liabilities and stockholders' equity	$18,749,209	$11,516,847

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended January 2, 2016, January 3, 2015 and December 28, 2013

	2015	2014	2013
Sales, net	$22,014,140	$15,313,179	$10,160,964
Cost of sales	13,533,132	9,987,514	7,027,828
Gross profit	8,481,008	5,325,665	3,133,136
Operating expenses:			
Sales and marketing	2,326,788	2,136,584	2,357,605
Research and development	891,601	513,671	134,040
General and administrative	7,416,451	7,860,930	4,982,976
Loss from investment in affiliate	-	45,829	44,961
Operating expenses	10,634,840	10,557,014	7,519,582
Operating loss	(2,153,832)	(5,231,349)	(4,386,446)
Nonoperating income (expense):			
Interest income	3,325	2,013	1,251
Interest expense	(616,033)	(158,849)	(34,330)
Nonoperating expenses	(612,708)	(156,836)	(33,079)
Loss before income taxes	(2,766,540)	(5,388,185)	(4,419,525)
Provision for income taxes	(4,527)	-	-
Net loss	$(2,771,067)	$(5,388,185)	$(4,419,525)
Basic and Diluted loss per common share	$(0.03)	$(0.05)	$(0.04)
Basic and Diluted weighted average common shares outstanding	107,632,022	106,459,379	99,987,443

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and
Subsidiaries
Consolidated Statement of Stockholders'
Equity
Years Ended January 2, 2016, January 3, 2015 and
December 28, 2013

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance, December 29, 2012	92,140,062	$92,140	$33,617,801	$(29,716,612)	$ 3,993,329
Issuance of common stock, net of offering costs of $20,000	3,529,411	3,529	2,976,471	-	2,980,000
Exercise of stock options	276,038	276	138,093	-	138,369
Exercise of warrants	7,979,227	7,979	1,630,769	-	1,638,748
Share-based compensation	600,000	600	1,333,930	-	1,334,530
Net loss	-	-	-	(4,419,525)	(4,419,525)
Balance, December 28, 2013	104,524,738	104,525	39,697,063	(34,136,137)	5,665,451
Issuance of warrant	-	-	246,189	-	246,189
Exercise of stock options	534,715	535	466,614	-	467,149
Issuance of unvested restricted stock	1,186,000	1,186	-	-	1,186
Unvested restricted stock	(1,186,000)	(1,186)	-	-	(1,186)
Share-based compensation	85,000	85	2,861,208	-	2,861,293
Stock issued to settle outstanding payable balance	126,605	126	146,368	-	146,494
Net loss	-	-	-	(5,388,185)	(5,388,185)
Balance, January 3, 2015	105,271,058	$105,271	$43,417,442	$(39,524,322)	$ 3,998,391
Issuance of common stock, net of offering costs of $25,000	1,600,000	1,600	1,973,293	-	1,974,893
Exercise of stock options	120,708	121	94,725	-	94,846
Vested restricted stock	684,000	684	(684)	-	-

Share-based compensation	335,000	335	1,977,276	-	1,977,611
Net loss	-	-	-	(2,771,067)	(2,771,067)
Balance, January 2, 2016	108,010,766	$108,011	$47,462,052	$(42,295,389)	$ 5,274,674

See Notes to Consolidated Financial Statements.

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ChromaDex Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended January 2, 2016, January 3, 2015 and December 28, 2013

	2015	2014	2013
Cash Flows From Operating Activities			
Net loss	$(2,771,067)	$(5,388,185)	$(4,419,525)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of leasehold improvements and equipment	285,536	222,721	246,175
Amortization of intangibles	45,014	35,589	23,532
Share-based compensation expense	1,977,611	2,916,924	1,287,917
Allowance for doubtful trade receivables	329,844	28,779	(441,340)
Loss from disposal of equipment	19,643	20,400	66,378
Loss from impairment of intangibles	19,495	-	-
Loss from investment in affiliate	-	45,829	44,961
Non-cash financing costs	188,442	49,527	-
Changes in operating assets and liabilities:			
Trade receivables	(873,726)	(1,096,695)	1,560,070
Other receivable	-	215,000	(215,000)
Inventories	(4,439,458)	(1,530,216)	(466,352)
Prepaid expenses and other assets	(82,124)	(91,053)	(62,913)
Accounts payable	2,772,350	2,157,192	(1,618,450)
Accrued expenses	449,180	196,978	(204,891)
Customer deposits and other	37,567	(311,609)	235,777
Deferred rent	(69,445)	(51,587)	57,650
Net cash used in operating activities	(2,111,138)	(2,580,406)	(3,906,011)
Cash Flows From Investing Activities			
Purchases of leasehold improvements and equipment	(525,231)	(123,096)	(137,349)
Purchase of intangible assets	(122,500)	(130,000)	(89,000)
Proceeds from sales of assets	-	-	1,000,000
Proceeds from sales of equipment	-	1,356	-
Proceeds from investment in affiliate	-	1,842,015	225,000
Net cash provided by (used in) investing activities	(647,731)	1,590,275	998,651

Cash Flows From Financing Activities			
Proceeds from issuance of common stock, net of issuance costs	1,974,893	-	2,980,000
Proceeds from exercise of stock options	94,846	467,149	138,369
Proceeds from exercise of warrants	-	-	1,638,748
Proceeds from loan payable	2,500,000	2,500,000	-
Payment of debt issuance costs	(15,000)	(102,866)	-
Principal payments on capital leases	(210,948)	(170,738)	(108,421)
Net cash provided by financing activities	4,343,791	2,693,545	4,648,696
Net increase in cash	1,584,922	1,703,414	1,741,336
Cash Beginning of Year	3,964,750	2,261,336	520,000
Cash Ending of Year	$5,549,672	$3,964,750	$2,261,336
Supplemental Disclosures of Cash Flow Information			
Cash payments for interest	$427,591	$74,996	$34,330
Supplemental Schedule of Noncash Investing Activity			
Capital lease obligation incurred for the purchase of equipment	$303,933	$322,802	$302,017
Retirement of fully depreciated equipment - cost	$121,213	$56,110	$-
Retirement of fully depreciated equipment - accumulated depreciation	$(121,213)	$(56,110)	$-
Supplemental Schedule of Noncash Operating Activity			
Stock issued to settle outstanding payable balance	$-	$146,494	$-
Supplemental Schedule of Noncash Share-based Compensation			
Stock awards issued for services rendered in prior period	$-	$-	$14,560
Changes in prepaid expenses associated with share-based compensation	$-	$55,631	$32,053
Warrant issued, related to loan payable	$-	$246,189	$-
Supplemental Schedule of Noncash Activities Related to			
Sale of BluScience Consumer Product Line			
Assets transferred	$-	$-	$3,526,677
Liabilities transferred	$-	$-	$368,873
Carrying value of long-term investment in affiliate, net of $1,000,000 cash proceeds	$-	$-	$2,157,804
See Notes to Consolidated Financial Statements.			

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Note 1. Nature of Business and Liquidity

Nature of business: ChromaDex Corporation and its wholly owned subsidiaries, ChromaDex, Inc., ChromaDex Analytics, Inc. and Spherix Consulting, Inc. (collectively, the "Company") are a natural products company that leverages its complementary business units to discover, acquire, develop and commercialize patented and proprietary ingredient technologies that address the dietary supplement, food, beverage, skin care and pharmaceutical markets. In addition to the Company's ingredient technologies unit, the Company also has business units focused on natural product fine chemicals (known as "phytochemicals"), chemistry and analytical testing services, and product regulatory and safety consulting (known as Spherix Consulting). As a result of the Company's relationships with leading universities and research institutions, the Company is able to discover and license early stage, intellectual property-backed ingredient technologies. The Company then utilizes the Company's in-house chemistry, regulatory and safety consulting business units to develop commercially viable ingredients. The Company's ingredient portfolio is backed by clinical and scientific research, as well as extensive intellectual property protection.

Liquidity: The Company has incurred a loss from operations of approximately $2.2 million and a net loss of approximately $2.8 million for the year ended January 2, 2016, and net losses of approximately $5.4 million and $4.4 million for the years ended January 3, 2015 and December 28, 2013, respectively. As of January 2, 2016, the cash and cash equivalents totaled approximately $5,550,000.

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 March 18, 2017, 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.

Note 2. Significant Accounting Policies

Significant accounting policies are as follows:

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. The fiscal year ended January 2, 2016 (referred to as 2015) consisted of 52 weeks, the fiscal year ended January 3, 2015 (referred to as 2014) consisted of 53 weeks and the fiscal year ended December 28, 2013 (referred to as 2013) consisted of 52 weeks. 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 2016 will include 52 weeks.

Changes in accounting principle: In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs have not changed.

The Company early adopted the amendments in this ASU effective as of April 4, 2015. As of January 2, 2016 and January 3, 2015, the Company had unamortized debt issuance costs of approximately $65,000 and $91,000,

respectively. The Company had previously presented the debt issuance costs as other noncurrent assets in its consolidated balance sheet as of January 3, 2015 in the Company's Annual Report on Form 10-K filed with the Commission on March 19, 2015. The early adoption has resulted in adjustments to the Company's consolidated balance sheet as of January 3, 2015, by reclassifying the debt issuance costs as a direct deduction from the carrying amount of the debt liability. Below are the effects of the change on the consolidated balance sheet as of January 3, 2015.

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ChromaDex Corporation and Subsidiaries

Condensed Consolidated Balance Sheet
January 3, 2015

Assets	Previously Reported	Adjustments	As Adjusted
Current Assets	$9,898,691	$ -	$9,898,691
Leasehold Improvements and Equipment, net	1,264,660	-	1,264,660
Other Noncurrent Assets	444,857	(91,361)	353,496
Total assets	$11,608,208	$ (91,361)	$11,516,847
Liabilities and Stockholders' Equity			
Current Liabilities	$4,980,820	$ -	$4,980,820
Loan payable, less current maturities, net	2,068,474	(91,361)	1,977,113
Capital lease obligations, less current maturities	423,015	-	423,015
Deferred rent, less current	137,508	-	137,508
Total liabilities	7,609,817	(91,361)	7,518,456
Total stockholders' equity	3,998,391	-	3,998,391
Total liabilities and stockholders' equity	$11,608,208	$ (91,361)	$11,516,847

Use of accounting estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Changes in accounting estimates: During the year ended January 3, 2015, the Company evaluated assumptions for estimating the fair value of the Company's stock options. The Company uses the Black-Scholes based option valuation model, which requires assumptions on (i) volatility, (ii) expected dividends, (iii) expected term and (iv) risk-free rate. While evaluating the assumptions on volatility, the Company determined that the historical volatility the Company's common stock needs to be considered when estimating the expected volatility. Previously, the Company calculated expected volatility based principally on the volatility rates of similarly situated publicly held companies, as the historical measurement period that was available to compute the volatility rate of the Company's common stock was shorter than the expected life of the options.

For stock options granted during the years ended January 2, 2016 and January 3, 2015, the Company calculated the expected volatility rate based on the combined volatilities of publicly held companies in similar industries and volatility of the Company's common stock. Based on the expected term of stock options, a 20~100% weight was

assigned to the volatility of the Company's common stock as the historical volatility of the Company's common stock from June 2008 through April 2010 was exceptionally high due to a thinly traded market. Below table illustrates the Company's historical volatility and the average daily trading volume of the Company's common stock from June 2008 through April 2010 and from April 2010 through December 2015.

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Period	Volatility	Average Daily Trading Volume
6/20/2008 ~ 4/19/2010	402 %	11,455
4/20/2010 ~ 1/2/2016	74 %	147,703

The weighted average expected volatilities for the stock options granted during the twelve-month period ended January 2, 2016 and January 3, 2015 following the update to our estimate are approximately 76% and 75%, respectively. The weighted average expected volatility would have been approximately 30~40% for these two years, had we computed solely based on the volatility rates of similarly situated public companies. For the year ended December 28, 2013, the weighted average expected volatility the Company used to estimate the fair value of the Company's stock options granted was approximately 33%.

The following is a pro-forma disclosure of our historical calculation of estimated volatility over the expected term based on a grant with an expected term of 6 years:

	Fiscal Year 2013					Fiscal Year 2013				
Name	Use		Volatility		Name	Use		Volatility		
Covance, Inc.	50	%	35	%	ChromaDex Corp.	20	%	243	%
Sigma-Aldrich Corp.	50	%	30	%	Covance Inc.	40	%	35	%
					Sigma-Aldrich Corp.	40	%	30	%
Weighted Average			33	%	Weighted Average			75	%

The change in our estimate of volatility did not result to a material additional expense to our statement of operations.

Revenue recognition: The Company recognizes sales and the related cost of sales at the time the merchandise is shipped to customers or service is performed, when each of the following conditions have been met: an arrangement exists, delivery has occurred, there is a fixed price, and collectability is reasonably assured. Discounts, returns and allowances related to sales, including an estimated reserve for the returns and allowances, are recorded as reduction of revenue.

Shipping and handling fees billed to customers and the cost of shipping and handling fees billed to customers are included in net sales. For the years ending in January 2, 2016, January 3, 2015 and December 28, 2013, shipping and handling fees billed to customers were approximately $113,000, $115,000 and $110,000, respectively, and the cost of shipping and handling fees billed to customers were approximately, $112,000, $130,000 and $128,000, respectively. Shipping and handling fees not billed to customers are recognized as cost of sales.

Taxes collected from customers and remitted to governmental authorities are excluded from revenue, which is presented on a net basis in the statement of operations.

Cash concentration: The Company maintains substantially all of its cash in three different accounts in one bank.

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on monthly and quarterly reviews 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. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade

accounts receivable previously written off are recorded when received.

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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. Labor and overhead has been added to inventory that was manufactured or characterized by the Company. The amounts of major classes of inventory for the periods ended January 2, 2016 and January 3, 2015 are as follows:

	2015	2014
Reference standards	$ 1,239,338	$ 1,760,305
Bulk ingredients	7,195,461	2,298,036
	8,434,799	4,058,341
Less valuation allowance	261,000	324,000
	$ 8,173,799	$ 3,734,341

Our normal operating cycle for reference standards is currently longer than one year. The Company has approximately 5,000 defined reference standards and holds a lot of these standards as inventory in small quantities, mostly in grams and milligrams. Due to the large number of different items we carry, certain groups of these reference standards have sales frequency that is slower than others and varies greatly year to year. In addition, for certain reference standards, the cost saving is advantageous when purchased in larger quantities and we have taken advantage of such opportunities when available. Such factors have resulted in an operating cycle to be more than one year on average. The Company gains competitive advantage through the broad offering of reference standards and it is critical for the Company to continue to expand its library of reference standards it offers for the growth of business. Nevertheless, the Company has recently made changes in its reference standards inventory purchasing practice, which the management believes will result in an improved turnover rate and shorter operating cycle without impacting our competitive advantage.

The Company regularly reviews inventories on hand and reduces the carrying value for slow-moving and obsolete inventory, inventory not meeting quality standards and inventory subject to expiration. The reduction of the carrying value for slow-moving and obsolete inventory is based on current estimates of future product demand, market conditions and related management judgment. Any significant unanticipated changes in future product demand or market conditions that vary from current expectations could have an impact on the value of inventories.

Intangible assets: Intangible assets include licensing rights and are accounted for based on the fair value of consideration given or the fair value of the net assets acquired, whichever is more reliable. Intangible assets with finite useful lives are amortized using the straight-line method over a period of 10 years, or, for licensed patent rights, the remaining term of the patents underlying licensing rights (considered to be the remaining useful life of the license).

Leasehold improvements and equipment: Leasehold improvements and equipment are carried at cost and depreciated on the straight-line method over the lesser of the estimated useful life of each asset or lease term. Leasehold improvements and equipment are comprised of leasehold improvements, laboratory equipment, furniture and fixtures, and computer equipment. Depreciation on equipment under capital lease is included with depreciation on owned assets. Maintenance and repairs are charged to operating expenses as they are incurred. Improvements and betterments, which extend the lives of the assets, are capitalized. Useful lives of leasehold improvements and equipment for each of the category are as follows:

	Useful Life
Leasehold improvements	Until the end of the lease term
Computer equipment	3 to 5 years
Furniture and fixtures	7 years
Laboratory equipment	10 years

Long-lived assets are reviewed for impairment on a periodic basis and when changes in circumstances indicate the possibility that the carrying amount may not be recoverable. Long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. If the forecast of undiscounted future cash flows is less than the carrying amount of the assets, an impairment charge would be recognized to reduce the carrying value of the assets to fair value. If a possible impairment is identified, the asset group's fair value is measured relying primarily on a discounted cash flow methodology.

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Customer deposits and other: Customer deposits and other represent either (i) cash received from customers in advance of product shipment or delivery of services; or (ii) cash received from government as research grants, which the Company has yet to complete the research activities.

The cash received from government as research grants is recognized as a liability until the research is performed. Other than a nominal management fee, which the Company is entitled to earn when the research is performed, the research activities related to the grants are excluded from revenue and are presented on a net basis in the statement of operations.

Income taxes: Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company files tax returns in all appropriate jurisdictions, which include a federal tax return and various state tax returns. Open tax years for these jurisdictions are 2012 to 2015, which statutes expire in 2016 to 2019, respectively. When and if applicable, potential interest and penalty costs are accrued as incurred, with expenses recognized in general and administrative expenses in the statements of operations. As of January 2, 2016, the Company has no liability for unrecognized tax benefits.

Research and development costs: Research and development costs consist of direct and indirect costs associated with the development of the Company's technologies. These costs are expensed as incurred.

Advertising: The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense for the periods ended January 2, 2016, January 3, 2015 and December 28, 2013 were approximately $104,000, $171,000 and $355,000, respectively.

Share-based compensation: The Company has an Equity Incentive Plan under which the Board of Directors may grant restricted stock or stock options to employees and non-employees. For employees, share-based compensation cost is recorded for all option grants and awards of non-vested stock based on the grant date fair value of the award, and is recognized over the period the employee is required to provide services for the award. For non-employees, share-based compensation cost is recorded for all option grants and awards of non-vested stock and is remeasured over the vesting term as earned. The expense is recognized over the period the non-employee is required to provide services for the award.

The fair value of the Company's stock options is estimated at the date of grant using the Black-Scholes based option valuation model. For the volatility assumption, please refer to the earlier section "Changes in accounting estimates" of this note. 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. For the expected term, the Company uses SEC Staff Accounting Bulletin No. 107 simplified method since most of the options granted were "plain vanilla" options with following characteristics: (i) the share options are granted at the market price on the grant date; (ii) exercisability is conditional on performing service through the vesting date on most options; (iii) If an employee terminates service prior to vesting, the employee would forfeit the share options; (iv) if an employee terminates service after vesting, the employee would have 30 days to exercise the share options; and (v) the share options are nontransferable and

nonhedgeable.

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The Company recognizes compensation expense over the requisite service period using the straight-line method for option grants without performance conditions. For stock options that have both service and performance conditions, the Company recognizes compensation expense using the graded attribution method. Compensation expense for stock options with performance conditions is recognized only for those awards expected to vest.

From time to time, the Company awards shares of its common stock to non-employees for services provided or to be provided. The fair value of the awards are measured either based on the fair market value of stock at the date of grant or the value of the services provided, based on which is more reliably measureable. Since these stock awards are fully vested and non-forfeitable, upon issuance the measurement date for the award is usually reached on the date of the award.

Fair Value Measurement: The Company follows the provisions of the accounting standard which defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. Under these provisions, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use on unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the
highest priority to Level 1 inputs.
Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Financial instruments: The estimated fair value of financial instruments has been determined based on the Company’s assessment of available market information and appropriate valuation methodologies. The Company’s financial instruments that are included in current assets and current liabilities are recorded at cost in the consolidated balance sheets. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature.

The carrying amounts reported in the balance sheet for capital lease obligations are present values of the obligations, excluding the interest portion. Capital lease obligations with maturities less than one year are classified as current liabilities.

The carrying amounts reported in the balance sheet for loan payable are present values net of discount, excluding the interest portion. The carrying value of long-term portion of the loan payable approximates fair value because the Company’s interest rate yield based on the credit rating of the Company is believed to be near current market rates. The long-term portion of the Company’s loan payable is considered a Level 3 liability within the fair value hierarchy. Loan payable with maturities less than one year are classified as current liabilities.

Recent accounting standards: In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 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. ASU 2014-09 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 U.S. 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. ASU 2014-09 is effective for us in our first quarter of fiscal 2018 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-01 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 2014-09 on our consolidated financial statements.

Note 3. Loss Per Share Applicable to Common Stockholders

The following table sets forth the computations of loss per share amounts applicable to common stockholders for the years ended January 2, 2016, January 3, 2015 and December 28, 2013.

	Years Ended		
	2015	2014	2013
Net loss	$(2,771,067)	$(5,388,185)	$(4,419,525)
Basic and diluted loss per common share	$(0.03)	$(0.05)	$(0.04)
Weighted average common shares outstanding (1):	107,632,022	106,459,379	99,987,443
Potentially dilutive securities (2):			
Stock options	15,734,755	13,974,052	13,160,955
Warrants	1,269,020	469,020	-
Convertible debt	773,395	773,395	-

(1) Includes 1,214,127, 1,623,186 and 500,000 weighted average nonvested shares of restricted stock for the years 2015, 2014 and 2013, respectively, which are participating securities that feature voting and dividend rights.

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

Note 4. Intangible Assets

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Intangible assets consisted of the following:

	2015			2014		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized intangible assets:						
License agreements and other	$1,249,500	$ 895,458	$ 354,052	$1,205,275	$ 909,224	$ 296,061

Amortization expenses on amortizable intangible assets included in the consolidated statement of operations for the years ended January 2, 2016, January 3, 2015 and December 28, 2013 were approximately $45,000, $36,000 and $24,000, respectively. The unamortized expense is expected to be recognized over a weighted average period of 8.2 years as of January 2, 2016.

In December 2015, the Company decided to discontinue its efforts to commercialize and market products associated with the patent the Company licensed from the Research Foundation of State University of New York in June 2008. The Company paid a license fee of approximately $78,000 and the licensed rights to the patent were recognized as intangible assets with an estimated fair value of approximately $78,000 and a useful life of 10 years. At January 2, 2016, the Company determined that these assets no longer had any carrying value as the Company discontinued its operations related to these assets.

Estimated aggregate amortization expense for each of the next five years is as follows:

Years ending December:	
2016	$45,000
2017	45,000
2018	45,000
2019	45,000
2020	42,000
Thereafter	132,000
	$354,000

Note 5. Leasehold Improvements and Equipment

Leasehold improvements and equipment consisted of the following:

	2015	2014
Laboratory equipment	$3,737,908	$3,151,748
Leasehold improvements	513,453	495,240
Computer equipment	404,228	329,737
Furniture and fixtures	17,056	13,039
Office equipment	21,547	7,877
Construction in progress	4,420	68,141
	4,698,612	4,065,782
Less accumulated depreciation	2,909,967	2,801,122
	$1,788,645	$1,264,660

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Depreciation expenses on leasehold improvements and equipment included in the consolidated statement of operations for the years ended January 2, 2016, January 3, 2015 and December 28, 2013 were approximately $286,000, $223,000 and $246,000, respectively.

The Company leases equipment under capitalized lease obligations with a total cost of approximately $1,137,000 and 1,074,000 and accumulated amortization of $231,000 and $243,000 as of January 2, 2016 and January 3, 2015, respectively.

Note 6. Capitalized Lease Obligations

Minimum future lease payments under capital leases as of January 2, 2016, are as follows: