



# INSTITUTIONAL RESEARCH

## Healthcare & Biotechnology

### INITIATION REPORT

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October 5, 2010

## Chromadex (Nasdaq/CDXC)

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**BUY** Natural Standard of Excellence

*Chromadex provides products and services to the natural foods industry*

### Investment Highlights

1) ChromaDex has **grown its core business at a rapid pace this year**, over 40% on the top line, thanks to the growth of the natural products industry and the Company's own past experience discovering and/or developing products such as Stevia. ChromaDex was **profitable** in the first quarter of this year, would have been nearly so in the most recent second quarter without certain non-cash charges, and we are **forecasting that the Company will continue to operate at or near profitability** going forward.

2) In its most recent second quarter, ChromaDex was able to **significantly enhance its balance sheet** through a private equity placement led by current executives of Teva Pharmaceuticals (Nasdaq/TEVA/Not Rated) as well as past managers with other successful healthcare-related ventures. The Company was not only able to **obtain needed capital for new product launches**, capacity expansion and other growth-related requirements, but may **benefit in the near future directly from these new connections with much larger international manufacturers and development companies**. These new resources may also assist the Company in making acquisitions, a recently stated goal which will be much easier now that funding is less of an issue.

3) Finally, after helping numerous clients discover, develop, and manufacture their own new natural products, the Company has **recently launched its own first proprietary product** into the nutritional supplements market, **pTeroPure**, an enhanced version of the popular ingredient Resveratrol. What's more, ChromaDex has **already signed several licensing or partnership agreements for more new products**, and with its additional intellectual property and ongoing product development initiatives the Company may soon launch more forms of pTeroPure and more entirely new products into the natural foods/dietary marketplace, adding further fuel for its new internal sales force and product management team.

**Current Price \$1.26**

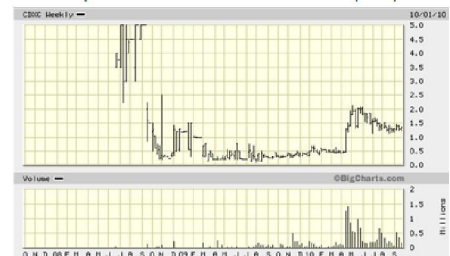
**Price Target \$2.25**

Estimates	F2008A	F2009A	F2010E
Revenue(\$000s)	\$4,506	\$5,778	\$8,121
1Q March	1,060	1,447	1,938 A
2Q June	1,199	1,343	2,034 A
3Q September	1,069	1,433	1,950 E
4Q December	1,179	1,555	2,200 E

EPS	(\$0.07)	(\$0.03)	(\$0.01)
1Q March	(0.00)	(0.01)	0.00 A
2Q June	(0.02)	(0.01)	(0.01) A
3Q September	(0.02)	(0.01)	(0.00) E
4Q December	(0.02)	(0.00)	0.00 E
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$0.06)	(\$0.01)	\$0.01
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$0.25-\$2.13
Shares Outstanding (mil.)	60.1
Market Capitalization (mil.)	\$75.7
Enterprise Value (mil.)	\$72.6
Debt to Capital (6/10)	9.2%
Book Value/Share (6/10)	\$0.09
Price/Book	13.6 X
Average Trading Volume (3-month)	60,200
Insider Ownership	26.7%
Institutional Ownership	2.0%
Short interest	N/A
Dividend / Yield	\$0.00/0.0%



Price target and ratings changes over the past 3 years:  
Initiated - October 5, 2010 - Target \$2.25

Please find Important Disclosures beginning on Page 14.

## Conclusion

We are initiating coverage on ChromaDex shares with a Buy rating and 12-18 month price target of \$2.25 per share. ChromaDex has a unique position in a growing field: The leading provider of phytochemical standards and discovery services to the fastest growing natural products segment of the expanding nutritional supplements market, itself benefitting from a recession-induced consumer switch to over-the-counter and natural remedies. Cash-strapped as recently as last December, ChromaDex has bolstered its balance sheet and at the same time aligned itself with some big-league players in the pharmaceutical/generics industry, all while nearing profitability for the first six months of this year through old-fashioned organic growth. Fueling that organic growth is the recent launch in April 2010 of the Company's first proprietary natural product, pTeroPure, an additive to nutritional supplements containing pterostilbene, a more active, "next generation" Resveratrol, which has grown in popularity in the past 3-4 years thanks to positive properties for a variety of lifestyle-induced diseases. Nearer-term, we estimate that initial shipments of pTeroPure as well as continued growth in the Company's core phytochemical business will fuel growth and enhance operating profit; Longer-term, ChromaDex's extensive intellectual property and experience with partnerships and licensing could bring the Company's prospects to the next level.

## History/Capitalization

ChromaDex Corporation was originally formed as a California corporation in February 2000 to fill an underserved market in the creation and supply of botanical and phytochemical reference standards as well as related products and services. In April 2003, ChromaDex acquired the natural product-oriented research and development group and chemistry staff of Napro Biotherapeutics, including a 13,000 square foot analytical laboratory based in Boulder, Colorado. In June of 2008, Chromadex came public via a reverse merger with a shell entity. In April 2010, the Company launched pTeroPure brand pterostilbene, a naturally-occurring new ingredient targeted to the dietary supplement industry, the Company's first branded product launch. The Company maintains its headquarters facility in Irvine, California in addition to the analytical lab in Boulder.

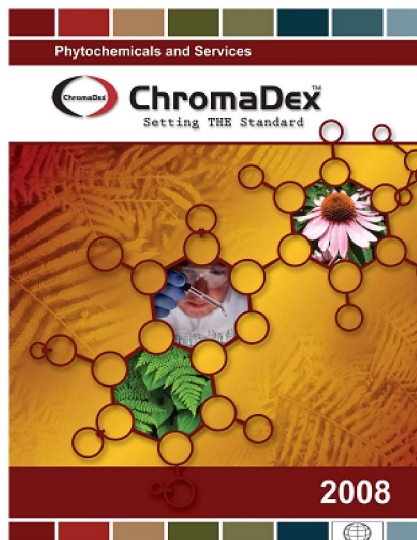
Since inception, ChromaDex has received a number of national and regional awards, including the *Nutrition Business Journal* small company growth award, *Inc.* magazine 500 fastest growing companies in America, the Orange County (California) Fast Pitch Competition, Innovation All-Star from the California Innovation Corridor, *Entrepreneur Magazine's* Hot 500 list, and the *Nutrition Business Journal* Award for scientific achievement.

Since inception, the Company has incurred aggregate operating losses of over \$8 million, which have been financed through capital contributions (including deferral of executive salaries) and common stock offerings, the most recent of which have been a \$4.2 million private equity placement with a US-based broker dealer in 2008, and a \$4.5 million private placement of equity stock and warrants from a US-based investment and related industry group in April 2010.

## Products and Services

### Current products and services

Phytochemicals can be defined simply as chemical compounds that occur naturally in plants, but also can be described more elaborately as standards used for the quality control of natural products such as dietary supplements, cosmetics, food and beverages, and pharmaceuticals. ChromaDex's current products and services can be outlined as follows:



- Supply of reference standards, materials & kits** – Chromadex, through its 400<sup>+</sup>-page catalog, (*2008 catalog cover shown at left*) supplies a wide range of products designed to conduct quality control of raw materials and consumer products. The reference standards, materials and kits created from the Company's products are used for research and quality control in the dietary supplements, cosmetics, food and beverage, and pharmaceutical industries. Reference materials, whether Chemical or Botanical, are an important part of any scientifically valid quality control and testing program. Chromadex' catalog products can be used for raw material identity confirmation, raw material potency quantification, analytical method validation, product formulation verification, and product potency quantification. All of the Company's Reference Materials are shipped with a Certificate of Analysis (CofA) and a Material Safety Data Sheet (MSDS). As an ISO17025 compliant

laboratory, ChromaDex's product documentation and specifications are central to a quality assurance program. Compliance with an individual product's specifications is routinely monitored for quality and stability to ensure product reliability and customer satisfaction. Chromadex has created and markets over 150 reference standard and analysis kits for botanicals, and is also able to create custom kits for customers when requested.

- Supply of fine chemicals and phytochemicals** – With demand increasing for new natural products and phytochemicals, Chromadex has been able scale up and supply core products on a wide scale range, from gram to kilogram, for companies who need products for research and new product development. ChromaDex now offers more than 30 unique, high purity phytochemicals in larger, bulk quantities up to kilogram sizes for research purposes.
- Bulk raw food grade chemicals** – Chromadex offers value-added bulk raw materials for dietary supply and food additives. Due to its strong patent position (see Intellectual Property below), Chromadex believes the Company can secure and defend its market position in this area through the use of patents as well as long-term manufacturing agreements with customers and vendors.
- Contract services** – Through its ChromaDex analytics division, the Company provides a wide variety of contract services ranging from routine contract analysis of dietary supplements, cosmetics, foods and other natural products to more elaborate contract research for its clients in these industries. Contract research services can include contract isolation, microbiological, process development, and bioassay services, all centered on the Company's expertise in natural products.
- Consulting services** – ChromaDex provides a wide range of consulting services to its clients in the natural products market, including regulatory support, litigation support, new ingredient or product development, and risk management. ChromaDex has put together a world class team of Natural Product Chemists, Analytical Chemists and Pharmacognosists to support its contract and consulting services division. ChromaDex can assist a client company with assessing its marketing position and materials, developing or investing in a new product, implementing GMPs, or even restructuring.

- **Process development** – ChromaDex also assists customers in creating processes for cost efficient manufacturing of natural products. Process development consulting services offered by ChromaDex can encompass process research and innovation, scale-up, design, construction, operation of pilot plant or laboratory units, technology transfer, and optimization of manufacturing processes.
- **Bioluminex** – Bioluminex is the Company’s proprietary bio-analytical method that identifies the presence of toxic or harmful compounds in water, dietary ingredients and food products and ingredients. The Company developed this method pursuant to a worldwide exclusive license agreement with Bayer AG in 2003 and with an additional license from the University of Texas at Austin in 2005. In essence, Bioluminex uses a unique and patented bio-analytical tool that combines the simple analytical technique of thin-layer chromatography (TLC) with a biosensor detection method providing a unique and effective way of analyzing complex mixtures. ChromaDex released the Bioluminex™ assay for sale in 2005 and in 2006 submitted a patent application for an improved Bioluminex™ assay and kit. The Company hopes to explore further sublicensing and the development of additional applications. The Company maintains a separate website for information, product literature and contacts on Bioluminex at [www.bioluminex.com](http://www.bioluminex.com).



### Commercialization of Intellectual Property

In addition to more traditional products and service offerings in the natural products market, ChromaDex has also had success in identifying and spinning off unique proprietary technologies that are able to be commercialized into significant new revenue sources. The first of these was naturally-derived compound Sclareolide, a novel diterpene isolated from *Salvia sclarea* (commonly known as clary sage). Sclareolide was created through a partnership with Avoca and in 2004 the Company started receiving its first royalty payments. Avoca, a North Carolina-based division of Pharmachem Labs, is a premier botanical extraction company.

ChromaDex also has a new product initiative in the anthocyanins area, following on a 2008 license agreement with SUNY Buffalo. Anthocyanins are botanically-derived “super-fruit” compounds, naturally-occurring pigments and anti-oxidants that can be used as natural colorants and may also have positive benefits in controlling blood glucose levels and managing weight conditions and diabetes. Like Resveratrol, anthocyanins are also found in red wine. Under the terms of the SUNY Buffalo agreement, ChromaDex made an upfront cash payment to the university and will pay earned royalties on the sales of corresponding technology products and services. In June 2009, ChromaDex was awarded a Small Business Innovation Research (SBIR) grant by the National Science Foundation to further the development of anthocyanins for commercial use in pharmaceutical, nutraceutical, functional food, natural chemical and cosmetic products, including developing manufacturing capabilities.

### Nutritional Industry Market Dynamics

According to a recent industry survey by *Nutrition Business Journal*, the overall market for US dietary supplements grew 6.2% in 2008 to \$25.2 billion, representing the strongest annual growth since the 1990s. The magazine’s survey further broke down these sales by Vitamins (34% of total), Herbs/Botanicals (19%), Specialty/Other (18%), Sports Nutrition (11%), Minerals (8%), and Meal Replacements (10%). The survey, which has been compiling industry data since 1997, speculated that consumer demand for supplements actually grew in 2008 despite the recessionary economy, as consumers turned to less expensive consumer and over-the-counter remedies rather than make doctor visits and take prescription pharmaceuticals. The survey also predicted continued growth in this market for 2009 and beyond, perhaps at a somewhat slower pace in the 4%-5% annual range, but nevertheless still very positive market growth in a down overall economy.

## pTeroPure Brand Pterostilbene

Pterostilbene is a natural derivative of Resveratrol found in small, dark-colored berries such as blueberries and grapes. Like Resveratrol, pterostilbene functions as an anti-oxidant and an anti-aging agent that has been shown to help lower cholesterol and even lower blood glucose levels. Pterostilbene has been shown to have improved activity and potency over Resveratrol in scientific publications. Resveratrol (3,5,4'-trihydroxy-trans-stilbene) is a phytoalexin produced naturally by several plants when under attack by pathogens such as bacteria or fungi, for example in the skin of red grapes and as a constituent in red wine. Resveratrol came to prominence as early as 1991, following scientific studies conducted to explain the *French Paradox*, a term coined ten years ago to explain why Frenchmen suffer a relatively low incidence of coronary heart disease, despite having a diet relatively rich in saturated fats. The most recent major study in the area, published in 2008 and conducted at the University of Wisconsin, Madison, and other institutions, showed that Resveratrol mimicked the effects of reduced caloric intake and retarded aging effects in mice. Over the previous twenty years, other scientific studies have shown Resveratrol to be effective in a number of areas in addition to having cardioprotective benefits, including life extension (2006), skin cancer (1997), esophageal tumors (2002), intestinal and colon tumors (2007), neuroblastomas (2007), neuroprotective effects (brain aging, 2008), anti-inflammatory effects (2007), anti-diabetic effects (2006) and even anti-viral inhibiting (2006, 2007, 2008).

Since Resveratrol quantities found in wine and red grapes are not sufficient for commercial purposes, the compound has been produced by chemical synthesis primarily from Japanese knotweed when large quantities are needed for uses such as in nutritional supplements. Sales of Resveratrol-enhanced products have grown significantly since 2006, including uses in nutritional supplements, drinks, and snack bars.



ChromaDex became interested and aware of Resveratrol and pterostilbene in the early part of this decade, and soon after began monitoring pterostilbene research being conducted under the auspices of the US Department of Agriculture (USDA). In 2008, ChromaDex signed a partnership with Aptuit, a privately-held, venture-backed multinational contract manufacturing firm, to manufacture pterostilbene and received its first customer order. More recently, earlier this year ChromaDex signed a license agreement with the University of Mississippi and the Agricultural Research Service (ARS), an agency of the USDA, for the rights to commercial development of pterostilbene. Researchers at the USDA-ARS and Ole Miss have been collaborating on studies of pterostilbene since 2003, and have presented a number of heavily publicized scientific papers on the positive benefits of pterostilbene as a nutritional supplement, most recently in a new study on the effectiveness of using pterostilbene for protecting cognitive function against age-related diseases presented at the American Chemical Society in March 2010.

In April 2010, ChromaDex launched its pTeroPure brand pterostilbene. The initial primary market for pTeroPure is the dietary supplement market, and the Company began generating revenue in this segment in Q2/2010. ChromaDex is also targeting the following types of products for inclusion of pTeroPure:

- Dietary Supplements – Including tablets, capsules and softgels
- MultiVitamins – Centrum with pTeroPure
- Sports Nutrition Products
- Beverages – Potentially including Vitamin Water and/or Red Bull with pTeroPure

- Food Products
- Cosmetics – Anti-aging lotions and creams

In August 2010, ChromaDex initiated a clinical trial at the University of Mississippi Medical Center in Jackson, Mississippi, where investigators hope to evaluate the compound in patients with lipid (cholesterol) disorders. Patients in the clinical study will be given both high and low doses of pterostilbene, and evaluated for cholesterol levels, high blood pressure, and inflammatory markers.

In a brief market analysis, we found that on-line and store retailer Vitamin Shoppe listed over 100 stocking items containing Resveratrol, including 30 different brands, while GNC listed 19 items containing Resveratrol, covering nine different manufacturers and a variety of formulations, including capsules, caplets, softgels, liquids and softchews. Many of the new, alternative dosage forms were marketed by a new vendor, ResVitale, a Tampa, Florida based company which sources its Resveratrol from France. GNC did not list any products containing pterostilbene, while Vitamin Shoppe listed three items, all of which also contained Resveratrol and were produced by a Scottsdale, Arizona called Life Extension.

### **Sales and Marketing**

ChromaDex uses a two-pronged sales strategy, depending on the jurisdiction. In the US, the Company employs a direct and inside technical sales group to market its products and services. In ChromaDex's Irvine, California headquarters, the Company maintains its sales staff locations, using combinations of telemarketing, e-mail, tradeshow and conferences, advertising and monthly newsletters to accomplish sales. The Company's sales staff are expected to perform both sales and customer service functions, and many of these employees have obtained appropriate scientific and educational experience in chemistry, biology, biochemistry or other related scientific fields. The Company plans to hire outside field sales representatives in the future, and most recently ChromaDex hired Dr. Jeremy Bartos as Ingredients Product Manager of pTeroPure.

Internationally, ChromaDex uses exclusive and non-exclusive distributors on a territorial basis. The Company has signed agreements in Europe, South America, Korea and India (in 2009) on an exclusive sales basis, and in Japan, Australia/New Zealand, China, Mexico, and Southeast Asia (Indonesia, Malaysia, Singapore and Thailand) on a non-exclusive basis. The Company is amenable to amending its distributor relationship from a non-exclusive to an exclusive basis if significant productivity is exhibited by its distributors.

### **Competition**

ChromaDex' competition includes a number of firms specializing in different areas, particularly:

- 1) **Sigma Aldrich** (NYSE/SIAL/Not Rated) – A large publicly traded, US-based multinational provider of chemicals, biological and life science products, standards and equipment to the research and scientific community.
- 2) **Covance** (NYSE/CVD/Not Rated) – Also US based, Covance is one of the largest Clinical Research Organizations (CRO) but also provides early stage drug development and laboratory analytical services;
- 3) **US Pharmacopoeia** – A nonprofit, nongovernmental agency which provides standards for pharmaceuticals and food ingredients through its US headquarters and four international offices;
- 4) **PhytoLab** - a German-based laboratory specializing in high-quality reference materials for the testing of plant-based products;
- 5) PhytoLab's reference substance materials are marketed in the US and Canada through a distribution agreement with privately-held **Cerrilant** of Round Rock, Texas. Cerrilant, for example, recently

announced a joint venture to produce reference materials for PureCircle's brand of Stevia-based sweeteners.

- 6) **Extrasynthese** – a French-based leader in the extraction and purification of natural vegetable and plant substances;
- 7) **Eurofins** – Eurofins Scientific (NYSE Euronext Paris/ERF/Not Rated) – is a \$900 million revenue international group of laboratories providing testing and support services to the pharmaceutical, food, environmental and consumer products industries, primarily in Europe; and
- 8) **Silliker** – Silliker Group is a Chicago-based division of French-based Institut Mérieux which provides food safety and quality services.

In addition, with its recent venture into the manufacturing and marketing of pTeroPure into the consumer market, ChromaDex now competes with a number of manufacturers of ingredients and products for the dietary supplements market, especially those containing Resveratrol.

## Manufacturing

ChromaDex operates laboratory and manufacturing facilities in its Boulder, Colorado location. The Company currently maintains its own manufacturing equipment and has the ability to manufacture small quantities of products. In the case of products developed internally or licensed through a strategic partnership with the potential for significant sales volumes, the Company intends to hire contract manufacturing companies to produce large volumes, while maintaining final inspection, packaging and labeling capabilities at its Irvine, California location.

## Recent Results

ChromaDex reported very positive results for their Q2/2010 ending July 3 in August, including revenues of \$2.0 million, representing an increase of 51% year-over-year. Revenue growth in Q2/2010 was led by an increase in demand for both products and services, including bulk food grade raw materials, as well as the initial shipment of pTeroPure materials. The net loss for the quarter was \$304,000 or (\$0.01) per share, slightly more than the \$291,000 loss, also (\$0.01) reported in the prior year period. However, without the inclusion of a non-cash charge for stock option expense in Q2/2010 due to the recent higher stock price, losses would have been much less in Q2/2010, only (\$70,000), and more comparable to the small net profit reported in the first quarter of the year. Thanks to the higher sales volume, gross margins in Q2/2010 improved to 38% from 36% in the prior year period. Research and development expenses stayed fairly level in Q2/2010, at approximately \$220,000, while general and administrative costs, outside of non cash compensation expense, increased by slightly over 20% year-over-year, well less than revenue growth. Shares outstanding also increased in the quarter due to the recent private placement completed in April 2010. Cash burn during the quarter was very minimal or even slightly positive. The chart below outlines sales, gross profit, operating expenses, net loss, earnings per share and shares outstanding for ChromaDex for the most recent Q2/2010 financial results as compared with the prior year period:

<b>Quarter ended</b>	<b>July 4, 2009</b>	<b>July 3, 2010</b>
<b>Sales</b>	<b>\$1,343,000</b>	<b>\$2,034,000</b>
<b>Gross Profit</b>	<b>\$478,000</b>	<b>\$776,000</b>
<b>Operating expenses</b>	<b>\$765,000</b>	<b>\$1,069,000</b>
<b>Net loss</b>	<b>(\$291,000)</b>	<b>(\$304,000)</b>
<b>Earnings per share</b>	<b>(\$0.01)</b>	<b>(\$0.01)</b>
<b>Shares outstanding (000s)</b>	<b>28,838</b>	<b>43.623</b>

## Balance Sheet and Operating Cash Flow

ChromaDex ended its second quarter (July 3, 2010) with \$3.4 million in cash and only approximately \$600,000 in capital lease obligations and deferred rent, and no outstanding balances of long- or short-term debt. A recent private equity placement and exercise of related warrants brought in approximately \$3.5 million and \$1.0 million in cash, respectively, enabling the Company to increase cash reserves by nearly \$3.0 million this year and at the same time repay nearly \$1.2 million in accrued salaries owed to employees. Break-even cash flow from operations from increased revenues so far this year was also a contributing factor in ChromaDex's conserving its cash over the first six months of this year. With operations forecast to be closer to or at break-even for the last two quarters of this year, and profitable next year, we do not foresee the need for ChromaDex to raise additional operating cash in the near future. While the Company may see increased outlays for capital expenditures the rest of this year and next, primarily to increase operating capacity at its Boulder laboratory facility, these outlays are not likely to seriously drain the Company's cash resources and in any case could be accomplished in a number of different ways, including capital equipment leases, for example. The table below outlines cash and equivalents, trade receivables, inventories, current liabilities, and stockholders' equity for ChromaDex for the most recent Q2/2010 ended July 3, 2010 as compared with the prior year-ended January 2, 2010 period:

<b><u>Balance Sheet items</u></b>	<b><u>January 2, 2009</u></b>	<b><u>July 3, 2010</u></b>
<b>Cash and equivalents</b>	<b>\$471,000</b>	<b>\$3,382,000</b>
<b>Trade receivables, net</b>	<b>\$498,000</b>	<b>\$846,000</b>
<b>Inventories</b>	<b>\$923,000</b>	<b>\$1,165,000</b>
<b>Current liabilities (inc. due to officers)</b>	<b>\$2,152,000</b>	<b>\$1,258,000</b>
<b>Stockholders' equity</b>	<b>\$1,047,000</b>	<b>\$5,578,000</b>

## Outlook/Growth Drivers

Our forecasts for ChromaDex center around continued revenue growth in the 40% area year-over-year, gross margins in the 40% range this year rising to the 50% area next year as new capacity fills up and new products mature, and operating expenses including R&D and S, G &A growing only modestly in 2011 over 2010, approximately 10% year-over-year.

For the upcoming quarter Q3/2010, estimated to be announced in November, we forecast that ChromaDex will see a little under \$2.0 million in sales, up 36% year-over-year, somewhat less than sales in Q2/2010 due to seasonal slowdown in the summer and also as initial stocking inventories of pTeroPure shipped in Q2/2010 are fully absorbed into the sales channel. We are estimating that sales in the following quarter, Q4/2010, will rebound to \$2.2 million, as the fourth quarter is seasonally stronger and new shipments of pTeroPure resume, representing a 41% increase over Q4/2009. Our net income/loss forecast for the upcoming two quarters shows a reduced loss of \$200,000 or (\$0.00) per share for Q3/2010 and break-even for Q4/2010.

For 2011, we are estimating that continued growth for pTeroPure (even coming in at only \$1-\$2 million for the year) as well as for analytical services as the natural product markets grows will help boost sales for ChromaDex over the \$10 million mark to \$11.4 million. Aided by improved gross margins from economies of scale and a strengthened balance sheet, we are also estimating that ChromaDex will accrue its first annual net income in 2011, at \$1.7 million or \$0.03 per share.

Among the growth initiatives planned for ChromaDex for the next 12-18 months to allow the Company to meet our forecasts and continue their recent growth and turn profitable next year are:

- 1. Process scale manufacturing** - The Company plans to invest in a pilot plant facility with the capability of manufacturing at a larger, process scale for new products already on the market, as a step up from current production of smaller lots;

2. **Phytochemical and plant extract libraries** – Through the development of its extensive phytochemical catalog, the Company has compiled an extensive list of over 3,000 chemicals related to natural products, many of which are unique to the ChromaDex catalog. Included in this list are nearly 50 chemical libraries. In addition to internally developed libraries, ChromaDex is exploring acquisitions or product licensing opportunities in this area;
3. **Databases for cross-referencing phytochemicals** – In addition to libraries, the Company is also further mining its catalog listing of phytochemicals by developing a database for cross-referencing phytochemicals against plants, including links to ethnopharmacology, ethnobotany, and biological activity;
4. **Anthocyanin** – Anthocyanins are plant-based secondary metabolites that are mainly responsible for the colors in plant tissues, primarily reds, purples and blues. The Company is working to establish cost-effective methods for the efficient production of anthocyanins from genetically-engineered bacteria. Anthocyanins have been shown to possess antioxidant, anti-cancer, and anti-inflammatory properties, making them attractive candidates for use in pharmaceuticals, dietary supplements, and food colorings.
5. **Simmondsin** – Simmondsin is an extract from the seeds of the jojoba plant, a shrub native to the deserts of California, Arizona and Mexico, which has recently been researched as a potential treatment for reducing appetite of obese individuals by helping to reduce cravings for food. ChromaDex owns intellectual property related to this compound, and recently selected Avoca as a joint venture partner to help finalize the manufacturing process for Simmondsin and jointly filed a patent.

## Management

**Frank L. Jaksch Jr.**, 41, is a co-founder of ChromaDex and has served as Co-Chairman of the Board and Chief Executive Officer since 2000. Mr. Jaksch oversees strategy, operations and marketing for the Company with a focus on scientific products and pharmaceutical and nutraceutical markets. From 1993 to 1999, Mr. Jaksch served as International Subsidiaries Manager of Phenomenex, a life science supply and scientific equipment company where he managed the international subsidiary and international business development divisions. Mr. Jaksch's previous experience also includes scientific positions with ICN Pharmaceuticals (now Valeant) Mr. Jaksch earned a B.S. in Chemistry and Biology from Valparaiso University.

**Thomas C. Varvaro** has served as ChromaDex's Chief Financial Officer since 2004 and Secretary since 2006. He has also served as a director since 2006. Mr. Varvaro oversees operations, accounting, information technology, inventory, distribution, and human resources management for the Company. Mr. Varvaro had developed skills in process mapping, information technology custom application design, enterprise risk systems deployment, plant automation and reporting and bar code tracking implementation from his prior business experiences. From 1998 to 2004, Mr. Varvaro was employed by Fast Heat Inc., a Chicago, Illinois based global supplier to the plastics, HVAC, packaging, and food processing industries, where he began as Controller and was promoted to Chief Information Officer and then Chief Financial Officer during his tenure. From 1993 to 1998, Mr. Varvaro was employed as Staff Accountant and later Assistant Controller at Maple Leaf Bakery, USA, a Chicago, Illinois based company, during its rise to becoming a national leader in specialty food products. He holds a B.S. in Accounting from University of Illinois, Urbana, and is a Certified Public Accountant.

Other key members of the Company's management team include **Mark Jost**, Vice President of Corporate Development; **Dr. James McChesney**, Chief Scientific Officer, **Dr. Sylesh Venkataraman**, Director of Chemistry; and **Dr. Jeremy Bartos**, Product Manager for pTeroPure.

**Mark S. Germain** is a co-Founder of the Company and also serves as Co-Chairman of the Board. Mr. Germain is a corporate securities attorney and has served as a co-founder and/or director for a number of public and private biotechnology companies. Other Directors include **Steven Block**, currently Chairman of Blue Pacific

Flavors and Fragrances and a Director of Senomyx; **Reid Dabney**, a Managing Director of Monarch Bay Associates; **Hugh Dunkerly**, currently Manager of Capital Markets for the FDIC and formerly Director of Corporate Development at the Company; **Michael Brauser**, Manager of Marlin Capital Partners; **Glenn Halpryn**, CEO of Transworld Investment Corporation; and **Kevin Jaksch**, a Vice President and Branch Manager at Charles Schwab & Co.

Dr. James McChesney, CSO, heads the Scientific Advisory team; other members include **Roy Upton** of American Herbal Pharmacopeia, **Mattheos Koffas** of the State University of New York at Buffalo, and **Dr. Ikhlas Khan** of the University of Mississippi.

### Catalysts/Investor Timeline

- 1) Reporting of operating results for Q3/2010 – November 2010
- 2) Additional partners and/or product line extensions for pTeroPure – 2010-11
- 3) Completion of clinical & marketing studies for pTeroPure - 2011
- 4) New product introductions/licensing agreements – 2010-2011
- 5) Potential acquisitions – 2010-2011
- 6) Expansion of current facilities and production/services capacity – 2010-2011
- 7) Build-out of pilot manufacturing plant – 2011

### Comparable Company Analysis/Stock Valuation

We have compiled a six-member group of comparable stocks to ChromaDex, including firms competing in the fine chemical area such as Enzo Biochem (NYSE/ENZ/Not Rated) and Sigma-Aldrich (Nasdaq/SIAL/Not Rated); companies that provide natural ingredients or discovery services such as Martek Biosciences (Nasdaq/MATK/Not Rated) and Senomyx (Nasdaq/SNMX/Not Rated); a fellow provider of natural foods in Lifeway Foods (Nasdaq/LWAY/Not Rated) and a current customer in Vitamin Shoppe (NYSE/VSI/Not Rated). While our group of six comparable companies generally trade at lower valuations vis-à-vis price /revenues (estimated for this year) at 2.6x versus 9.4x for ChromaDex and for price/earnings (20x versus 46x for 2011E), ChromaDex also has a much higher projected growth rate, at 40% versus 13% on average for the comparable group as measured by revenue forecasts for next fiscal year. Table 1 below outlines price/revenues for 2010E and price/earnings ratios for 2010E and 2011E for ChromaDex and six comparable fine chemicals/nutritional products companies.

Differing stages of growth between ChromaDex and its older comparables makes valuation determination more difficult (although several of the larger, older firms in our group are even further from profitability), but we believe investors could be rewarded with potential share appreciation up to \$2.25 for CHDX over the next 12-18 months, representing 10x revenues estimated for 2011-12 and share price levels just slightly above highs reached earlier this year, thus we rate these shares a BUY.

## Risk Factors

### We believe an investment in ChromaDex involves the following risks:

- **Regulatory risks** – ChromaDex is subject to oversight from several US federal agencies such as the FDA and USDA for its laboratory and manufacturing facilities. Similarly, the Company's partners and service clients in the scientific and research community are heavily involved in both government-funded research and new product development and are subject to regulatory review. Any changes in the research funding environment or in regulatory rules could negatively affect the Company and its clients' prospects.
- **Reliance on new products** — ChromaDex introduced pTeroPure, its first major self-marketed proprietary product, earlier this year and saw the first significant sales from this product in the second quarter of 2010. PTERoPure sales have been a contributing factor in the Company's growth so far this year and are forecast to be a major factor going forward. This product and proprietary sales in general are new initiatives for the Company in a large part, and any unforeseen developments in the near future, such as new competition, shortages of raw material supply, or adverse publicity could have a negative impact on the Company's operations.
- **Need to raise additional capital** – ChromaDex has recently completed a private placement and has greatly strengthened its balance sheet in 2010; Nevertheless, the Company is currently not operating at a profit and should ChromaDex accelerate its capital spending or continue to operate at a loss for a number of quarters in the future the Company could be required to raise additional capital. Alternatively, ChromaDex has a large number of warrants outstanding that are priced at or near current trading levels (approximately 10% of shares outstanding) which could be a source of additional capital without the need to complete a new financing. However, the exercise of existing warrants could also have an adverse affect on future share price due to potential dilution from new shares issued to meet these obligations.

**ChromaDex Corporation**  
**Consolidated Statements of Operations**  
 (In 000s, except per share data)

FYE December	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10E	4Q10E	2010E	2011E
			March	June	September	December		March	June	September	December		
Sales	\$4,754	\$4,506	\$1,447	\$1,343	\$1,433	\$1,555	\$5,778	\$1,938	\$2,034	\$1,950	\$2,200	\$8,121	\$11,370
Cost of sales	3,122	3,275	979	865	953	939	3,736	1,120	1,258	1,170	1,280	4,828	5,690
Gross Profit	1,632	1,232	468	478	480	616	2,041	818	776	780	920	3,294	5,680
Operating Expenses:													
Sales and marketing	388	721	222	220	190	199	830	225	228	230	230	913	1,020
General and administrative	1,422	2,575	567	545	464	529	2,104	554	841	750	700	2,845	3,070
Total operating expenses	1,809	3,296	788	765	654	728	2,934	779	1,069	980	930	3,758	4,090
Income (loss) from operations	(178)	(2,064)	(320)	(287)	(174)	(112)	(893)	39	(293)	(200)	(10)	(464)	1,590
Interest expense & other	(32)	(70)	(5)	(5)	(4)	(3)	(17)	(6)	(11)	(10)	(10)	(36)	(20)
Interest income	20	30	2	0	0	0	2	0	0	10	20	31	100
Income (loss) before tax	(190)	(2,104)	(324)	(291)	(178)	(115)	(908)	34	(304)	(200)	0	(470)	1,670
Provision for income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss)	(190)	(2,104)	(324)	(291)	(178)	(115)	(908)	34	(304)	(200)	0	(470)	1,670
Basic income per share	(\$0.01)	(\$0.07)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)	\$0.00	(\$0.01)	(\$0.00)	\$0.00	(\$0.01)	\$0.03
Diluted income per share	(\$0.01)	(\$0.07)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.03)	\$0.00	(\$0.01)	(\$0.00)	\$0.00	(\$0.01)	\$0.03
Basic shares outstanding	26,514	28,313	28,838	28,838	28,838	28,838	28,838	28,838	43,623	60,100	60,600	48,290	61,000
Diluted shares outstanding	26,514	28,313	28,838	28,838	28,838	28,838	28,838	28,838	43,623	60,100	60,600	48,290	61,000
Key ratios:													
Revenue growth		-5.2%	36.6%	12.0%	34.1%	31.9%	28.2%	33.9%	51.5%	36.1%	41.5%	40.6%	40.0%
Gross margin	34.3%	27.3%	32.3%	35.6%	33.5%	39.6%	35.3%	42.2%	38.1%	40.0%	42.0%	40.6%	50.0%
Sales expense/sales	8.2%	16.0%	15.3%	16.4%	13.3%	12.8%	14.4%	11.6%	11.2%	11.8%	10.5%	11.2%	9.0%
G&S/sales	29.9%	57.1%	39.2%	40.6%	32.4%	34.0%	36.4%	28.6%	41.3%	38.5%	32.0%	35.0%	27.0%
Depreciation, amort, non-cash comp	\$500	\$530	\$145	\$145	\$145	\$155	\$590	\$140	\$320	\$300	\$300	\$1,060	\$1,200
Operating margin	-3.7%	-45.8%	-22.1%	-21.4%	-12.1%	-7.2%	-15.5%	2.0%	-14.4%	-10.3%	-0.5%	-5.7%	14.0%
Cash Flow/share	\$0.01	(\$0.06)	(\$0.01)	(\$0.01)	(\$0.00)	\$0.00	(\$0.01)	\$0.01	\$0.00	\$0.00	\$0.00	\$0.01	\$0.05
EBITDA/share	\$0.01	(\$0.06)	(\$0.01)	(\$0.00)	(\$0.00)	\$0.00	(\$0.01)	\$0.01	\$0.00	\$0.00	\$0.01	\$0.01	\$0.05

**Balance Sheets**

Assets:	(\$000s)	
	1/2/10	7/3/10
Cash and equivalents	\$471	\$3,382
Trade receivables, net	498	846
Inventories	923	1,165
Prepaid expenses & other current	116	252
Total current	2,008	5,644
Leasehold Improvements & Equipment	1,203	1,396
Deposits	32	32
Intangible assets, net	321	315
TOTAL ASSETS	\$3,565	\$7,387
Liabilities:		
Accounts payable	\$548	\$787
Accrued expenses	270	326
Capital leases	28	73
Due to officers	1,178	0
Customer deposits & other	127	71
Total current	2,152	1,258
Capital lease obligations	46	239
Deferred rent	320	312
Stockholders' equity	1,047	5,578
TOTAL LIAB & EQ	\$3,565	\$7,387

**Quarterly Earnings Comparisons**

	March	June	September	December	Total
	<b>Revenues (in \$Mill)</b>				
2008	\$1,060	\$1,199	\$1,069	\$1,179	\$4,506
2009	1,447	1,343	1,433	1,555	5,778
2010E	1,938	2,034	1,950	2,200	8,121
<b>Earnings per Share</b>					
2008	(\$0.00)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.07)
2009	(0.01)	(0.01)	(0.01)	(0.00)	(0.03)
2010E	0.00	(0.01)	(0.00)	0.00	(0.01)

**Operating Statistics**

Sales by Region (\$000s)	2007	2008	2009	2010E	2011E
	US	\$3,502	\$3,082	\$4,301	\$6,521
Rest-of-world	1,252	1,424	1,477	1,600	1,800
Total	\$4,754	\$4,506	\$5,778	\$8,121	\$11,370

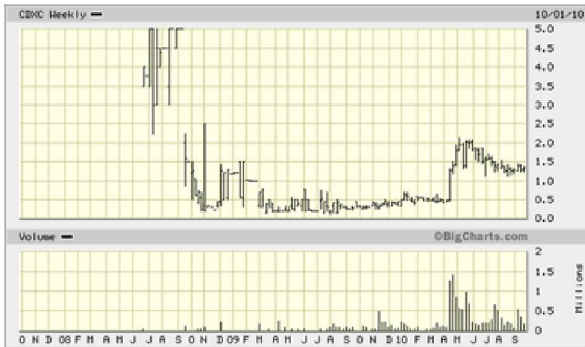
Source: Dawson James Securities, Inc. estimates; Company documents

Table 1. Fine Chemicals/Nutritional Products Comparable Company Analysis											2010-11	
Company	Symbol	Price	Shares (millions)	Market Cap (\$Millions)	Calendar Year		Revenues 2010E	Calendar Year		Price/Revs 2010E	Revenue Growth	Notes
					EPS '10E	EPS '11E		P/E '10E	P/E '11E			
Enzo Biochem	ENZ	\$3.68	38.2	\$141.0	N/A	N/A	\$96.0	N/A	N/A	1.5	8.4%	Fine chemical division is profitable, growing slowly
Lifeway Foods	LWAY	10.27	16.7	172.0	0.35	0.37	63.0	29.3	27.8	2.7	6.5%	Maker of organic/health foods
Martek Biosciences	MATK	22.75	33.5	762.0	1.26	1.67	440.0	18.1	13.6	1.7	6.1%	Ingredient supplier- key products are Omega-3 based
Senomyx	SNMX	3.95	38.6	152.0	N/A	N/A	29.0	N/A	N/A	5.2	43.5%	Ingredient discovery - strong consumer products client base
Sigma-Aldrich	SIAL	59.62	121.3	7,232.0	3.13	3.42	2,240.0	19.0	17.4	3.2	5.4%	Fine chemicals, biochemicals & equipment
Vitamin Shoppe	VSI	28.18	27.8	783.0	1.03	1.31	749.0	27.4	21.5	1.0	9.9%	Retail & direct marketing, October 2009 IPO
Average								23.5	20.1	2.6	13.3%	
ChromaDex	CDXC	\$1.26	60.1	\$76.0	(\$0.01)	\$0.03	\$8.1	N/A	46.0	9.4	40.0%	Phytochemical services & products, 1st product launch April

Source: DJSI Research; FactSet

## Important Disclosures:

### Price Chart:



### Price target and ratings changes over the past 3 years:

Initiated – October 5, 2010 – Target \$2.25

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	14	74%	4	29%
Neutral	5	26%	4	80%
Sell	0	0%	0	0%
Total	19	100%	8	42%

**Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.**

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