

Arrayit Corp
Form 10-Q
August 14, 2009

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2009

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to

Commission File No. 001-16381

ARRAYIT CORPORATION
(Exact name of registrant as specified in its charter)

Nevada
(State of other jurisdiction of
incorporation)

76-0600966
(I.R.S. Employer Identification No.)

524 East Weddell Drive Sunnyvale, CA 94089
(Address of Principal Executive Office) (Zip Code)

Registrant's telephone number, including area code: (408) 744-1331

Securities registered pursuant to Section 12 (b) of the Act: NONE

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

Edgar Filing: Arrayit Corp - Form 10-Q

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 No

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
-----------------------------------------------------	-----------------------------------------------	---------------------------------------------------	------------------------------------------------------------------

(Do not check if a smaller reporting company)

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

There were 3,295,809 shares of the Registrant's common stock outstanding at August 11, 2009.

Table of Contents

Form 10-Q
For the Quarterly Period Ended June 30, 2009

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1.	4
	5
	6
	7
<u>Item 2.</u>	15
<u>Item 3.</u>	20
<u>Item 4T.</u>	20
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	21
<u>Item 1A.</u>	21
<u>Item 2.</u>	21
<u>Item 3.</u>	21
<u>Item 4.</u>	21
<u>Item 5.</u>	21
<u>Item 6.</u>	22
<u>Signatures</u>	22
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	

Table of Contents

This report contains trademarks and trade names that are the property of Arrayit Corporation and its subsidiaries, and of other companies, as indicated.

FORWARD-LOOKING STATEMENTS

Portions of this Form 10-Q, including disclosure under “Management’s Discussion and Analysis or Plan of Operation,” contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Forward-looking statements involve assumptions and describe our plans, strategies, and expectations. You can generally identify a forward-looking statement by words such as may, will, should, expect, anticipate, estimate, believe, intend, contemplate or project. Factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, among others,

- our ability to raise capital,
- our ability obtain and retain customers,

- our ability to provide our products and services at competitive rates,
- our ability to execute our business strategy in a very competitive environment,

- our degree of financial leverage,
- risks associated with our acquiring and integrating companies into our own,

- risks related to market acceptance and demand for our services,
- the impact of competitive services,

- other risks referenced from time to time in our SEC filings.

With respect to any forward-looking statement that includes a statement of its underlying assumptions or bases, we caution that, while we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we or our management express an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the cautionary statements. We do not undertake any obligations to publicly release any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect unanticipated events that may occur.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1.

ARRAYIT CORPORATION
CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEETS

	As of June 30, 2009	As of December 31, 2008 (as restated)
Assets		
Current assets:		
Cash	\$ -	\$ -
Accounts receivable, net of allowance for doubtful accounts of \$125,000 and \$105,000, respectively	396,159	261,656
Inventory	406,144	484,368
Prepaid expenses	-	-
Total current assets	802,303	746,024
Property and equipment, net	36,416	41,451
Restricted cash	101,132	100,734
Deposits	18,924	18,924
Total assets	\$ 958,775	\$ 907,133
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,359,791	\$ 5,143,622
Bank overdraft	69,560	9,110
Due to related parties	403,283	349,950
Accrued expenses	-	1,295,131
Customer deposits	79,005	62,798
Derivative liability	5,728,235	1,525,684
Notes payables, current portion including related parties	1,462,816	3,120,418,
Total current liabilities	13,102,690	11,506,713
Notes payable, long term	209,871	248,412
Total liabilities	13,312,561	11,755,125
Commitments and contingencies	-	-
Stockholders' deficit		
Preferred stock, \$0.001 par value, 166,667 shares authorized		
Preferred stock, Series "A" 25,694 and 123,254 shares issued and outstanding, respectively	25	123
Preferred stock, Series "C" 103,143 shares issued and outstanding	103	103
	3,297	584

Edgar Filing: Arrayit Corp - Form 10-Q

Common stock, \$.001 par value, voting, 3 333,333 shares authorized, 3,295,809 and 583,304 shares issued and outstanding, respectively

Additional paid-in capital	5,451,787	1,340,868
Accumulated deficit	(17,808,998)	(12,189,670)
Total stockholders' deficit	(12,353,786)	(10,847,992)
Total liabilities and stockholders' deficit	\$ 958,775	\$ 907,133

See accompanying notes to condensed consolidated financial statement

Table of Contents

ARRAYIT CORPORATION
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS

	For the Three Months		For the Six Months	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Total Revenues	1,186,033	1,078,614	2,185,828	1,930,986
Cost of Sales	847,823	488,405	1,602,205	1,251,247
Gross Margin	338,210	590,209	583,623	679,739
Selling, General and Administrative	340,255	308,926	688,188	666,587
Profit (loss) form operations	(2,045)	281,283	(104,565)	13,152
Gain (loss) on Derivative Liability	15,268,358	(69,730)	7,902,094	(46,015)
Gain (Loss) on Extinguishment of debt	-	-	(12,834,898)	
Legal Expense	(22,994)	(26,938)	(35,441)	(49,891)
Interest (expense)	(70,154)	(156,209)	(188,811)	(289,021)
Net Income (Loss)	\$ 15,173,165	\$ (28,406)	\$ (5,261,621)	\$ (371,775)
Income (Loss) per share, basic	\$ 4.60	\$ (0.05)	\$ (1.60)	\$ (0.68)
Basic weighted average number of common shares	3,295,809	542,807	3,295,809	542,807
Profit (Loss) per share, diluted	\$ (0.36)	\$ (0.05)	\$ (1.60)	\$ (0.68)
Diluted weighted average number of common shares	42,276,581	542,807	3,295,809	542,807

See accompanying notes to condensed consolidated financial statements

Table of Contents

ARRAYIT CORPORATION
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (5,261,621)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	7,000
Loss on derivative liability	(7,902,094)
Loss on extinguishment of debt	12,834,898
Changes in operating assets and liabilities:	
Increase in Accounts receivable	(134,503)
Increase in Restricted Cash	(398)
Decrease in Inventory	78,224
Increase in Accounts payable	216,169
Increase in Accounts payable-related party	53,333
Increase in Bank overdraft	60,450
Increase in Customer deposits	16,207
CASH PROVIDED BY OPERATING ACTIVITIES	(32,335)
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for purchase of fixed assets	(1,965)
CASH USED IN INVESTING ACTIVITIES	(1,965)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from loans	71,244
repayment of notes payable	(36,944)
CASH PROVIDED BY FINANCING ACTIVITIES	34,300
NET DECREASE IN CASH	0
CASH AT BEGINNING OF YEAR	-
CASH AT YEAR END	\$ -
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	\$ 63,944

Table of Contents

ARRAYIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED UNAUDITED STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2009

NOTE 1 – ORGANIZATION AND BUSINESS OPERATIONS

Arrayit Corporation (the “Company” or “Arrayit”) is a Nevada Corporation, formerly known as TeleChem International, Inc., that entered into the life sciences in 1996. Arrayit is a leading edge developer, manufacturer and marketer of next-generation life science tools and integrated systems for the large scale analysis of genetic variation, biological function and diagnostics. Using Arrayit’s proprietary technologies, the Company provides a comprehensive line of products and services that currently serve the sequencing, genotyping, gene expression and protein analysis markets, and the Company expects to enter the market for molecular diagnostics.

Arrayit has earned respect as a leader in the health care and life sciences industries with its proven expertise in three key areas: the development and support of microarray tools and components, custom printing and analysis of microarrays for research, and the identification and development of diagnostic microarrays and tools for early detection of treatable disease states. As a result, Arrayit has provided tools and services to thousands of the leading genomic research centers, pharmaceutical companies, academic institutions, clinical research organizations, government agencies and biotechnology companies worldwide.

The Company’s patented tools and trade secrets provide researchers around the world with the performance, throughput, cost effectiveness and flexibility necessary to perform the billions of genetic tests needed to extract valuable medical information. The Company believes this information will enable researchers to correlate genetic variation and biological function, which will enhance drug discovery, drug development and clinical research, allowing diseases to be detected earlier and permitting better choices of drugs for individual patients.

Effective Thursday, March 19, 2009, the final steps of the business combination with Integrated Media Holdings, Inc. were completed and the Company’s common stock began trading on the OTC Bulletin Boards as “ARYC”. In addition, the Company changed its name to “Arrayit Corporation”, was reincorporated to Nevada from Delaware, and reverse-split its common stock and Series A Convertible Preferred stock in the ratio of one for thirty shares. The reverse split was only applicable to the Company’s Class “A” Preferred shares and its Common Shares. The Class “C” Preferred Shares were not affected by the reverse split. The reverse split had no effect upon the convertible debt “Oral Agreements” which fixed the amount of shares to be issued at 12,478,357 both pre and post split. As the March 19, 2009 Directors Resolution did not change the authorized share capital of the Company, the authorized number of Common Shares was reduced from 100,000,000 to 3,333,333. The Directors approved the reverse split to create a more orderly market for the trading of its Common Shares on the OTC BB.

The effects of the Reverse Stock Split have been reflected retroactively in the accompanying consolidated financial statements and notes thereto for all periods presented.

Interim financial statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders’ equity in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations

and financial position have been included and all such adjustments are of a normal recurring nature.

These financial statements should be read in conjunction with the audited financial statements and notes thereto contained in Arrayit's Annual Report filed with the SEC on Form 10-K. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements, which would, substantially duplicate the disclosure contained in the audited financial statements for fiscal year 2008 as reported in Form 10-K have been omitted.

Table of Contents

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Principles of Consolidation

The financial statements reflect the consolidated results of Arrayit Corporation and its wholly owned subsidiaries (enumerate wholly owned entities). All material inter-company transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes all cash and highly liquid investments with original maturities of three months or less. The Company maintains cash in bank deposit accounts which, at times, exceed federally insured limits. The Company has not experienced any losses on these accounts.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization on property and equipment are determined using the straight-line method over the three to five year estimated useful lives of the assets.

Impairment of Long-Lived Assets

Arrayit reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. Arrayit evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of operations.

Inventory

Inventories are stated at the lower of cost or market, cost determined on the basis of FIFO.

Revenue Recognition

Revenue is recognized when title and risk of loss are transferred to customers upon delivery based on terms of sale and collectibility is reasonably assured.

Shipping and Handling Costs

Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs paid to vendors are recorded as cost of sales.

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying balance sheets of all financial instruments approximates their fair values because of the immediate or short-term maturity of these financial instruments or comparable interest rates of similar instruments.

Table of Contents

Allowance for Doubtful Accounts

The Company records an allowance for estimated losses on customer accounts. The allowance is increased by a provision for bad debts, which is charged to expense, and reduced by charge-offs, net of recoveries.

Patent Costs

Costs incurred with registering and defending patent technology are charged to expense as incurred.

Income Taxes

Prior to February 21, 2008, the financial statements of TeleChem did not include a provision for Income Taxes because the taxable income of Telechem was included in the Income Tax Returns of the Stockholders under the Internal Revenue Service "S" Corporation elections.

Upon completion of the February 21, 2008 transaction with IMHI as more fully described in Note 1, TeleChem ceased to be treated as an "S" Corporation for Income Tax purposes. Effective March 19, 2009, Arrayit Corporation became a Nevada C Corporation.

Deferred taxes are computed using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are not recognized unless it is more likely than not that the asset will be realized in future years.

The Company applies the provisions of FASB, Interpretation No. 48, or FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109." FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

When applicable, the Company will include interest and penalties related to uncertain tax positions in income tax expense.

Earnings (Loss) per Common Share

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the period. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus common stock equivalents which would arise from the exercise of options and warrants outstanding using the treasury stock method and the average market price per share during the year. Options, warrants, convertible debt and convertible preferred stock which are common stock equivalents are not included in the diluted earnings per share calculation for 2009 and 2008, respectively, since their effect is anti-dilutive.

Stock-Based Compensation

The Company accounts for stock issued to employees, officers and directors in accordance with Statement of Financial Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123(R)"), SFAS No. 123(R) requires all new share-based payments to employees, including grants of employee stock options, to be recognized in

the financial statements based on their fair values.

Statement of Cash Flows

For the six months ended June 30, 2008, cash flows provided (used) by operating activities approximates net income (loss) and the net change in cash .

Table of Contents

Recent Accounting Pronouncements

In May 2009, the FASB issued FAS 165, "Subsequent Events". This pronouncement establishes standards for accounting for and disclosing subsequent events (events which occur after the balance sheet date but before financial statements are issued or are available to be issued). FAS 165 requires an entity to disclose the date subsequent events were evaluated and whether that evaluation took place on the date financial statements were issued or were available to be issued. It is effective for interim and annual periods ending after June 15, 2009. The adoption of FAS 165 did not have a material impact on the Company's financial condition or results of operation.

In June 2009, the FASB issued FAS 166, "Accounting for Transfers of Financial Assets" an amendment of FAS 140. FAS 140 is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets: the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Company does not expect the adoption of FAS 166 to have an impact on the Company's results of operations, financial condition or cash flows.

In June 2009, the FASB issued FAS 167, "Amendments to FASB Interpretation No. 46(R)". FAS 167 is intended to (1) address the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in FAS 166, and (2) constituent concerns about the application of certain key provisions of Interpretation 46(R), including those in which the accounting and disclosures under the Interpretation do not always provided timely and useful information about an enterprise's involvement in a variable interest entity. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Company does not expect the adoption of FAS 167 to have an impact on the Company's results of operations, financial condition or cash flows.

In June 2009, the FASB issued FAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles". FAS 168 will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of FAS 168 to have an impact on the Company's results of operations, financial condition or cash flows.

NOTE 3- GOING CONCERN

Arrayit has a working capital deficit of \$12,300,388, a stockholders' deficit, and recurring net losses. These factors create substantial doubt about Arrayit's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if Arrayit is unable to continue as a going concern.

The ability of Arrayit to continue as a going concern is dependent on Arrayit generating cash from the sale of its common stock or obtaining debt financing and attaining future profitable operations. Management's plans include selling its equity securities and obtaining debt financing to fund its capital requirement and ongoing operations;

however, there can be no assurance Arrayit will be successful in these efforts.

NOTE 4 – CASH AND RESTRICTED CASH

Cash on hand and bank overdrafts represent cash that may freely be used in the conduct of our business.

Restricted cash is comprised of a \$100,000 Certificate of Deposit plus accrued interest lodged with our bankers as security for a \$100,000 letter of deposit we were mandated to lodge with the Pennsylvania court, as part of the Pediatrix legal action more fully described in Note 8. Upon finalization of the legal action, the letter of credit will be returned and the bankers will release the restrictions on the Certificate of Deposit.

Table of Contents

NOTE 5 – ACCOUNTS RECEIVABLE SOLD WITH RECOURSE

Pursuant to an agreement dated July 5, 2007, the Company has sold some of its Accounts Receivable to a financial institution with full recourse. The financial institution retains a 15% portion of the proceeds from the receivable sales as reserves, which are released to the Company as the Receivables are collected. The maximum commitment under this facility is \$500,000, and is limited to receivables that are less than 31 days outstanding. The facility bears interest at prime plus 7% currently 10.25% at June 30, 2009, and is secured by an unconditional guarantee of the Company and a first charge against the Accounts Receivable. At June 30, 2009 the balance outstanding under the recourse contracts was \$300,967. Because of the Company's credit policies, repossession losses and refunds in the event of default have not been significant and losses under the present recourse obligations are not expected to be significant, it is at least reasonably possible that the Company's estimate will change within the near term.

NOTE 6 – NOTES PAYABLE

Notes payable consisted of the following at June 30, 2009

Note payable to Dorn & Associates. Payable in 36 monthly installments of \$890 at an interest rate of 5%. The Company is presently in default of the payment terms on this note, and has classified the entire note balance as current. These notes are unsecured	\$25,177
Convertible notes due to a former officer and shareholder of the Company, These notes bear interest at 12%, are unsecured, and due on demand. The Company is presently in default of the payment terms on these notes. The notes are convertible into approximately 10,251 shares at approximately \$8.00 per share.	74,174
Notes payable to an individual with interest at 10% collateralized by receivables and due on demand.	17,826
Note payable to a financial group, unsecured with interest rate at 12% and due on demand.	25,000
Notes payable to former officer and other individual accredited investors, unsecured without specific terms of repayment	60,250
Notes payable, unsecured interest at 12% and due on demand	165,416
Notes payable, interest free, unsecured due on demand from a shareholder	23,500
Sub Total - Debt from predecessor company	391,343
Notes payable to Wells Fargo, payable in 60 monthly instalments of \$8,572 including interest at bearing interest at Prime plus 2.75% (10.25% at June 30, 2009), through November 2012. Secured by Equipment, Inventory, Accounts, Instruments, Chattel Paper and General Intangibles of TeleChem International, Inc. Unconditional Guarantees by some of the company's Class "C" shareholders and unconditional limited guarantees by those shareholders' spouses. Guarantee secured by two residential properties and cash collateral of \$276,000.	286,338
Notes payable, interest at 8%, unsecured due on demand from Arrayit creditors	42,783

Edgar Filing: Arrayit Corp - Form 10-Q

Notes payable, interest at 5%, unsecured, due on demand from minority shareholders	147,938
Notes payable, interest at 8%, unsecured due on demand from the former TeleChem shareholders and their families	804,285
Sub Total - Debt from Arrayit	1,281,344
Notes payable including related parties	\$1,672,687
Short Term Debt	\$1,462,816
Long Term Debt	209,871
Notes payable including related parties	\$1,672,687

Table of Contents

Warrants

In January 2008, the Company issued warrants to purchase 1,250,000 shares of common stock. The Company evaluated the convertible debentures and the warrants under SFAS No. 133 "Accounting for Derivatives" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock". The Company determined that the warrants qualified as free standing derivatives as the Company is unable to determine with certainty they will have enough shares available to settle any and all outstanding common stock equivalent instruments. The Company would be required to obtain shareholder approval to increase the number of authorized shares needed to share settle those contracts. Because increasing the number of shares authorized is outside of the Company's control, this results in these instruments being classified as liabilities under EITF 00-19 and derivatives under SFAS No. 133.

The fair value of the derivative instruments – warrants is estimated using the Black-Scholes option pricing model with the following assumptions as of June 30, 2009:

Common stock issuable upon exercise of warrants	1,250,000
Estimated market value of common stock on measurement date(1)	\$ 0.52
Exercise price	\$ 0.01
Risk free interest rate (2)	0.19%
Warrant lives in years	3.56
Expected Volatility (3)	404.559%
Expected dividend yields (4)	None

(1) The estimated market value of the stock is measured each period end and is based reported public market prices.

(2) The risk-free interest rate was estimated by management using the U.S. Treasury zero-coupon yield over the contractual term of the warrant on date of grant.

(3) The volatility factor was estimated by management using the Company's historical volatilities of its stock price.

(4) Management estimated the dividend yield at 0% based upon its expectation that there will not be earnings available to pay dividends in the near term.

As the Warrant Agreement contained an anti-dilution clause, no recognition was given to the subsequent Reverse Stock Split of 30 to 1 which took place on March 22, 2009.

NOTE 7 - DEBT MODIFICATION

In 2008, Cloud Capital entered into a formal custodial arrangement with 16 participants. Cloud has no discretionary power and acts solely as custodian taking direction from each participant. Each participant lodged a basket of securities with the custodian made up of common, convertible preferred and convertible debt at the time of the IMHI acquisition of TeleChem on February 21, 2008.

In January 2008, the Company entered into an oral agreement with each of the participants whereby the participant agreed to a fixed number of shares for their "basket" of securities. However, On February 20, 2009 the participants became discouraged with the efforts of the company to complete the regulatory filings and requested that the original oral agreement be abrogated. The Company then came to a new oral agreement with each of the participants that included the following:

- (a) All prior agreements are now null and void.
- (b) The quantum of shares being made available to the 16 participants will be fixed at 12,478,357.
- (c) The 18,695 common shares, held by the participants, are issued and outstanding and will be not be affected by the new oral agreement.
- (d) The 2,926,787 pre-split, (936,572 post-split) series A preferred shares will be surrendered for cancellation without compensation by each of the participants.
- (e) The debt of \$1,993,450 and estimated penalty and interest of \$1,555,750 for a total approximation of \$3,549,200 will be converted into 12,478,357 common shares being a fixed number of common shares regardless of the interest and penalties that continue to accrue.
- (f) Due to the lack of sufficient authorized capital only 2,712,500 common shares were available for conversion on March 13, 2009 and March 16, 2009.
- (g) Interest and penalties cease to accrue on the debt and therefore no additional penalties or interest will become payable.

It is the intention of the 16 debt holders and the Company that the debt will be converted into common shares, as soon as a practical. Currently, the company does not have sufficient authorized share capital to satisfy this obligation, and therefore the debt may not be converted. Management is not able to practically estimate when it will have sufficient authorized share capital as this lies outside the control of the company.

For greater certainty as as outlined in item (e) above, as a result of these Oral Agreements there will be no effect upon the company of the continuing defaults or of any changes in interest rates. The Oral Agreements fix the number of shares to be issued upon conversion regardless of any additional interest and penalties which may have been due under the originating documents that are now superceded by the Oral Agreements.

The Company recorded a derivative liability of \$20,996,593 as a result of insufficient authorized shares to satisfy the debt settlement according to FAS 133 (Accounting for Derivative Instruments and Hedging Activities) and revalue the liability at the end of each interim period by recording gain/(loss) on derivative liability of \$15,268,358.

The gain of \$15,268,358, for the three months ended June 30, 2009, was primarily due to the decrease in the OTCBB market value of the Company's shares from \$2.00 used to determine the derivative liability at the end of the March 31, 2009 (the Company's first quarter) and the \$0.52 used to determine the derivative liability at the end of June 30, 2009 (the Company's current reporting period).

The 936,572 preferred series "A" shares held by the Oral Agreement debt holders were cancelled subsequent to the debt settlement. At the consummation of the debt settlement transaction, the Company recorded a loss on extinguishment of debt of \$12,834,898.

Table of Contents

NOTE 8 - STOCKHOLDERS' EQUITY (DEFICIT)

Description	Preferred Series A		Preferred Series C		Common Stock		Additional	Retained	Total
	Number	Dollar	Number	Dollar	Number	Dollar	Paid In Capital	Earnings	Stockholders' Equity
Balance, December 31, 2008	123,254	\$ 123	103,143	\$ 103	583,309	\$ 584	\$ 1,340,868	\$(12,189,670)	\$(10,847,992)
Modification of convertible debt	(97,560)	(98)			2,712,500	2,713	4,110,919	(357,707)	3,755,827
Net Income for the six months ended June 30, 2009								(5,261,621)	(5,261,621)
Balance, June 30, 2009	25,694	\$ 25	103,143	\$ 103	3,295,809	\$ 3,297	\$ 5,451,787	\$(17,808,998)	\$(12,353,786)

Convertible Preferred Stock

The Series A Preferred Stock has no stated dividend rate and has a liquidation preference of \$.001 per share. The Series A Preferred Stock also has voting rights that entitle the preferred shareholders to vote with the common shareholders as if the preferred stock had converted to common. The conversion ratio of the preferred into common is not subject to revision upon reverse stock dividends or splits that reduce the total shares outstanding.

Subsequent to the debt settlement described in Note 7 above, 936,572 shares of Preferred A have been surrendered to and cancelled by the Company.

The Series C Preferred Stock has no stated dividend rate. The Series C Preferred Stock also has voting rights that entitle the preferred shareholders to vote with the common shareholders as if the preferred stock had converted to common. The conversion ratio of the preferred into common is not subject to revision upon reverse stock dividends or splits that reduce the total shares outstanding.

The 103,143 Series C Preferred Stock was issued on February 21, 2008 as part of the merger with TeleChem. These Series C Preferred shares are convertible into 36,100,000 common shares at the rate of 350:1.

On August 15, 2008 the articles of designation for the Series C Preferred Stock were amended to limit the conversion to common to shares to 10% of the holders' original holdings in any quarter.

Table of Contents

NOTE 9 -COMMITMENTS AND CONTINGENCIES

Pediatrix Screening, Inc., et al. V. TeleChem International, Inc.

The controversy at issue arose from a failed grant collaboration between Pediatrix and TeleChem, involving TeleChem's proprietary microarray technology and subsequent agreement by the parties to commercialize this microarray technology through the formation of a joint corporation. Pediatrix brought a lawsuit in the United States District Court for the Western District of Pennsylvania alleging multiple claims for breach of contract in connection with both the grant collaboration and Pre-Incorporation Agreement. TeleChem counterclaimed alleging breach of the Pre-Incorporation Agreement, as well as fraudulent misrepresentation and trade secret misappropriation, inter alia , stemming from the failed grant collaboration and subsequent Pre-Incorporation Agreement.

On August 11, 2007, the jury returned a verdict finding that, while both parties were in breach of contract, Pediatrix also engaged in fraudulent misrepresentation and awarded TeleChem \$500,000 in damages and \$3,500,000 in punitive damages for the fraudulent misrepresentation claim and \$1,000,000 in damages on the breach of contract claim. The jury also awarded Pediatrix \$1,085,000 in damages for Pediatrix's breach of contract claim against TeleChem.

Pediatrix's Rule 59 motion to amend the judgment was denied by the District Court. Pediatrix appealed the jury verdict on fraudulent misrepresentation and the \$4,000,000 in damages awarded there under to the U.S. Court of Appeals for the Third Circuit. Pediatrix has indicated that it will not pursue on appeal the breach of contract verdict and damage award against it. TeleChem did not appeal any portion of the jury verdict.

The appeal is currently pending before the U.S. Court of Appeals for the Third Circuit.

Other Matters

IMHI may become or is subject to investigations, claims or lawsuits ensuing out of the conduct of its business. IMHI is currently unable to estimate the loss (if any) related to these matters. Other than the Pediatrix matter referred to above, IMHI is not aware of any other matters.

NOTE 10 – INCOME TAXES

At June 30, 2009, the Company had net operating loss (NOL) carry-forwards available to offset future taxable income of approximately \$18 million including approximately \$11.5 million from Integrated Media Holdings, Inc. at date of the merger. The utilization of the NOL carry-forwards is dependent upon the tax laws in effect at the time the NOL carry-forwards can be utilized. It is also likely that utilization of the NOL carry-forwards are limited based on changes in control from the merger. A valuation allowance has been recorded against the deferred tax asset due to the uncertainty surrounding its realization caused by the Company's recurring losses. The NOL carryforwards will expire in 2018.

Prior to merger, the financial statements of TeleChem International, Inc. ("Telechem") did not include a provision for income taxes because the taxable income of Telechem was included in the income tax returns of the stockholders under Internal Revenue Service "S" Corporation elections. Upon completion of the merger, Telecom ceased to be treated as an "S" Corporation for income tax purposes income tax purposes.

NOTE 11 – SUBSEQUENT EVENTS

Management has reviewed material subsequent events through August 11, 2009 in accordance with SFAS No. 165.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the six months ended June 30, 2009, this "Management's Discussion and Analysis" should be read in conjunction with the Condensed Consolidated Unaudited Financial Statements, including the related notes, appearing in Item 1 of this Quarterly Report, as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The preparation of this Quarterly Report on Form 10-Q requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results reported in the future will not differ from those estimates or that revisions of these estimates may not become necessary in the future.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," or "anticipates," and do not reflect historical facts. Specific forward-looking statements contained in this portion of the Annual Report include, but are not limited to the Company's (i) expectation that certain of its liabilities listed on the balance sheet under the headings "Accounts Payable," "Accrued Liabilities" and "Note Payable" will be retired by issuing stock versus cash during the next 24 months; (ii) expectation that it will continue to devote capital resources to fund continued development of the Arrayit technology; (iii) anticipation that it will incur significantly capital expenditures to further its deployment of the Arrayit offerings; and (iv) anticipation of a significant increase in operational and SG&A costs as it accelerates the development and marketing of the Arrayit operations.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those to be identified in our Annual Report on Form 10-K for the year ended December 31, 2008 in the section titled "Risk Factors," as well as other factors that we are currently unable to identify or quantify, but may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

Company Overview

Arrayit began as a division of TeleChem International in 1996 with the advent of Dr. Mark Schena's use of microarrays as genetic research tools. Arrayit was able to generate a large customer base in a relatively short time frame by capitalizing on increased Internet access and Arrayit's online business model. Genetic research was advancing at a dramatic pace in the 1990s as more advanced tools became commercially available. Microarray technology, including printing, detection and scanning instrumentation, was a timely addition to the geneticist's repertoire of advanced tools, including automated sequencing, PCR, and expanded computing capability. The sequencing of the genomes of various simple organisms and later, sequencing of the more complex genomes of humans, have led to yet another revolution in genetic discovery: gene function and variations with regard to disease states and diagnostics. Microarray tools, having undergone FDA-validation in the 2000s, remain an important component of the new genomic industry upon which Arrayit will capitalize.

Table of Contents

Arrayit Products and Services

In the late 1990's, Arrayit focused on developing microarray slides, kits and reagents using an open platform strategy in order to establish a market niche. In other words, Arrayit decided to make products that integrate with components from other vendors, enabling research laboratories to utilize microarray products from multiple vendors, in contrast to the closed platform format of the earliest competitors. Research customers especially enjoy the flexibility and continue to buy Arrayit's products. Arrayit's patented printing technology has become an industry standard for microarray manufacturing. Arrayit's revenues from the printing patent and its own family of printing instrumentation illustrate the Company's success at meeting the unmet needs of the microarray industry. Arrayit now sells both small-scale microarray robots (SpotBot®) and high throughput versions (NanoPrint). The SpotBot® and NanoPrint product lines have been further advanced to accommodate more stringent requirements in manufacturing protein microarrays. As the industry grows, Arrayit is expanding its product line to include integrated platforms and pre-printed microarray slides with specific content.

Arrayit is now expanding its Microarray Services capabilities as well, in connection with increased demand for microarrays of all kinds, and a trend toward outsourcing high end technical manufacturing. With the investment proposed in this plan, Arrayit will create a variety of microarray based diagnostic tests using Arrayit's patented Healthcare technology, the Variation Identification Platform (VIP), technology. As microarrays move into clinical diagnostics and genetic screening applications, the Company also expects to earn license and royalty fees in these areas.

Arrayit has been a microarray technology market driver for more than a decade. A full microarray product list with descriptions, scientific publications, protocols and pricing is available at <http://Arrayit.com>

Arrayit's principal office is in Sunnyvale, California. TeleChem presently has ten employees.

Corporate History

Integrated Media Holdings, Inc.(IMHI) is a Delaware corporation, on February 5, 2008, entered into a Plan and Agreement of Merger (the "Merger") by and among , TeleChem International, Inc. ("TeleChem"), the majority shareholders of TeleChem ("Shareholders"), Endavo Media and Communications, Inc., a Delaware corporation ("Endavo") and TCI Acquisition Corp., a Nevada corporation, and wholly owned subsidiary of IMHI ("Merger Sub"). IMHI, TeleChem, Endavo, Merger Sub and Shareholders are referred to collectively herein as the "Parties".

Effective February 21, 2008, IMHI completed the Plan and Agreement of Merger by and among us, TeleChem International, Inc., the majority shareholders of TeleChem, Endavo Media and Communications, Inc., a Delaware corporation and TCI Acquisition Corp., a Nevada corporation, and wholly owned subsidiary of IMHI. Consummation of the merger did not require a vote of our shareholders. IMHI issued 103,143 shares of Series C Convertible Preferred Stock to the Shareholders of TeleChem in exchange for 100% of the equity interests of TeleChem resulting in TeleChem being a wholly owned subsidiary. The former shareholders of TeleChem now own approximately 73.5% of the outstanding interest and voting rights of IMHI. The Preferred Stock is convertible into 36,100,000 shares of common stock after, but not before, the effective date of the reverse split of the outstanding Integrated Media common stock. Finally, in connection with the merger, we changed the address of our principal executive offices to 524 East Weddell Drive, Sunnyvale, CA 94089. Simultaneously with the merger we transferred our wholly-owned subsidiary, Endavo to an individual. As a result, the transaction will be accounted for as a reverse merger, where Telechem is the accounting acquirer resulting in a recapitalization of our equity.

Effective Thursday, March 19, 2009, the final steps of the business combination with Integrated Media Holdings, Inc. were completed and the Company's common stock began trading on the OTC Bulletin Boards as "ARYC". In addition,

Edgar Filing: Arrayit Corp - Form 10-Q

the Company changed its name to “Arrayit Corporation”, was reincorporated to Nevada from Delaware, and reverse-split its common stock and Series A Convertible Preferred stock in the ratio of one for thirty shares.

The reincorporation will be effected by the merger of IMHI, with and into its wholly owned subsidiary, Arrayit. Arrayit will be the surviving entity.

On the Effective Time, each of IMHI’s common stockholders will be entitled to receive one fully paid and non-assessable share of common stock or preferred stock of Arrayit for each share of our common stock or preferred stock, respectively, outstanding as of the Effective Time and (ii) IMHI will cease its corporate existence in the State of Delaware. We anticipate that the shares of the Company will cease trading on the first trading date following the Effective Time and shares of Arrayit will begin trading in their place but under a new CUSIP number and trading symbol.

Table of Contents

Recent Developments

On April 7, 2009, Arrayit Corporation announced a new research collaboration with The Parkinson's Institute of Sunnyvale, California to discover biomarkers for Parkinson's disease. This study involves the prospective collection of samples from well-characterized Parkinson's patients combined with Arrayit's new H25K microarray technology. The first experiments have enabled rapid and efficient sample preparation of specimens from Parkinson's disease patients, an important step in the discovery of molecular markers for Parkinson's disease.

On April 30, 2009, Arrayit Corporation announced that it is developing a microarray-based diagnostic test to detect the H1N1 swine flu virus. The Arrayit test will allow researchers and clinicians to detect the presence of the virus in infected patients and livestock and to distinguish the threatening mutated strain from less harmful variants in humans and swine. The H1N1 kits will use Arrayit's patented Variation Identification Platform (VIP) Technology. The H1N1 test kits will be sent to the Centers for Disease Control (CDC) for validation, then sold for emergency use by licensed clinics, laboratories and other health care organizations worldwide.

Market Conditions in Our Industry

The microarray industry is comprised of four areas: basic research into the function of genes in plants and animals, research on the human genome, development of diagnostics for personalized medicine, and diagnostic screening tools for drug development programs that identify toxicity patterns in patient populations.

The basic research segment constitutes a significant portion of the industry that has grown dramatically since first introduced in the mid-nineties by Arrayit's Dr. Mark Schena. Arrayit currently sells the majority of its products to this segment of the industry. The human genetic research segment constitutes the fastest growing segment, making up the current balance of Arrayit's sales. However, the impact of diagnostics in personalized medicine is expected to be far greater than the above, because of its impact on the very costly healthcare industry. Better patient outcome and lower healthcare cost to medical providers will provide opportunities in a vast number of disease states as the industry grows. Diagnostic tests will become a part of every individual patient's care plan across the costly spectrum of disease states, including cardiovascular, oncology, neurology, and other genetic diseases that affect large numbers of the population.

Arrayit competes with large and small, public and private companies. The industry has been historically dominated by Affymetrix which achieved strong market penetration by being the first public company to commercialize and promote microarray applications. A more recent entry to the market, Illumina, has taken significant market share from Affymetrix. However, both competitors face mid to long term scientific and technological challenges because they are limited by what they can deposit onto a microarray--DNA. Arrayit's patented printing technology can deposit any kind of molecule into a microarray, including DNA, proteins, antibodies, diagnostic elements and other compounds. These next generation microarrays represent the largest growth opportunity in the industry. Arrayit has a long-term advantage in its unique line of personal and high throughput microarray printers, highest sensitivity microarray scanners, top quality consumables, patented diagnostic methods, collaborative corporate culture, and competitive pricing.

Table of Contents

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes all cash and highly liquid investments with original maturities of three months or less. The Company maintains cash in bank deposit accounts which, at times, exceed federally insured limits. The Company has not experienced any losses on these accounts.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization on property and equipment are determined using the straight-line method over the three to five year estimated useful lives of the assets.

Impairment of Long-Lived Assets

Arrayit reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. Arrayit evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of operations.

Inventory

Inventories are stated at the lower of cost or market, cost determined on the basis of FIFO.

Revenue Recognition

Revenue is recognized when title and risk of loss are transferred to customers upon delivery based on terms of sale and collectibility is reasonably assured.

Shipping and Handling Costs

Shipping and handling costs billed to customers are recorded as revenue. Shipping and handling costs paid to vendors are recorded as cost of sales.

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying balance sheets of all financial instruments approximates their fair values because of the immediate or short-term maturity of these financial instruments or comparable interest rates of similar instruments.

Allowance for Doubtful Accounts

The Company records an allowance for estimated losses on customer accounts. The allowance is increased by a provision for bad debts, which is charged to expense, and reduced by charge-offs, net of recoveries.

Patent Costs

Costs incurred with registering and defending patent technology are charged to expense as incurred.

Income Taxes

Prior to February 21, 2008, the financial statements of TeleChem did not include a provision for Income Taxes because the taxable income of Telechem was included in the Income Tax Returns of the Stockholders under the Internal Revenue Service "S" Corporation elections.

Upon completion of the February 21, 2008 transaction with IMHI as more fully described in Note 1, TeleChem ceased to be treated as an "S" Corporation for Income Tax purposes. Effective March 19, 2009, Arrayit Corporation became a Nevada C Corporation.

Deferred taxes are computed using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are not recognized unless it is more likely than not that the asset will be realized in future years.

Table of Contents

Results of Operations

Comparison of Operating Results- Six and Three Months Ended June 30, 2009 and 2008.

Gross revenues for the six months ended June 30, 2009 and 2008 were \$ 2,185,828 and \$1,930,986 respectively. Gross revenues for the three months ended June 30, 2009 and 2008 were \$1,186,033 and \$1,078,614 respectively. The Company continues to be hampered by its lack of financing. The Company had in excess of \$900,000 of orders on hand which it was not able to ship by June 30, 2009.

The Cost of Sales for the six, months ended June 30, 2009 and 2008 amounting to \$1,602,205 and \$1,251,247 respectively, resulting in gross profit for the six months ended June 30, 2009 and 2008 of \$583,623 and \$679,739 respectively. The Company's Cost of Sales is dependent upon product mix. During 2009 the Company sold products with a lower gross margin than in the comparable period for 2009.

The Cost of Sales for the three months ended June 30, 2009 and 2008, amounted to \$847,823 and \$488,405 respectively, resulting in gross profit for the three months ended June 30, 2009 and 2008 of \$338,210 and \$590,209 respectively. The Company's Cost of Sales is dependent upon product mix. During 2009 the Company sold products with a lower gross margin than in the comparable period for 2008.

Selling, general and administrative expenses for six months ended June 30, 2009 and 2008 were \$688,188 and \$666,587 respectively. The increase was directly related to the expenses incurred for complying with the filing requirements for a public company; these expenses include accounting fees, various public filing related fees. Selling, general and administrative expenses for the three months ended June 30, 2009 and 2008 were \$340,255 and \$308,926 respectfully. The decrease is attributable to cost control during the quarter. Legal expenses of \$35,441 and \$49,891 were incurred for the six months ended June 30, 2009 and 2008. For the three months ended June 30, 2009 and 2008 legal fees were \$22,994 and \$29,938. Legal fees are incurred primarily to defend the Company's intellectual property rights and are incurred as actions are undertaken. During the three months ended June 30, 2008 the Company incurred costs associated with the Pediatrix law suit.

Net loss from operations was \$2,045 for the three months ended June 30, 2009 compared with a net profit from operations of \$281,283 for the three months ended June 30, 2008. For the six months ended June 30, 2009 the company had a loss from operations of \$104,565 compared to a profit from operations of \$13,152 for the three months ended June 30, 2008.

Interest Expense for the six months ended June 30, 2009 and 2008 was \$188,811 and \$289,021 respectively. Interest expense for the three months ended June 30, 2009 and 2008 was \$70,154 and \$156,209. The reduction in 2009 resulted from the reduction in outstanding debt, and as explained above, due to the cessation of interest accrual on the predecessor debt pursuant to the Oral Agreements. See Note 7 in section "Notes to Unaudited Condensed Consolidated Financial Statement).

Pursuant to the Oral Agreements we fixed the number of shares to be issued upon conversion of the debt covered by said agreements. As we do not have sufficient authorized share capital to allow the conversion of the debt we have a derivative. The loss on extinguishment of debt was \$12,834,898 for the six months ended June 30, 2009. There were no gains or losses during 2008 See Note 7 in section "Notes to Unaudited Condensed Consolidated Financial Statement).

The Company recorded a derivative liability of \$20,996,593 as a result of insufficient authorized shares to satisfy the debt settlement according to FAS 133 (Accounting for Derivative Instruments and Hedging Activities) and revalue the

liability at the end of each interim period by recording gain/(loss) on derivative liability of \$15,268,358.

The gain of \$15,268,358, for the three months ended June 30, 2009, was primarily due to the decrease in the OTCBB market value of the Company's shares from \$2.00 used to determine the derivative liability at the end of the March 31, 2009 (the Company's first quarter) and the \$0.52 used to determine the derivative liability at the end of June 30, 2009 (the Company's current reporting period).

Cash flows from operations approximated net income (loss) for the six and three months ended June 30, 2009 and 2008. The Company has funded its operating deficits through debt financing.

Liquidity and Capital Resources

Historical Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2008:

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash provided (used) by operating activities	\$ (32,335)	\$ 28,406
Cash paid for capital expenditures	(1,965	
Cash provided (used) by financing activities - net	34,300	(28,406)
Increase (decrease) in cash and cash equivalents	\$ -	\$ -

Source of Liquidity

The Company's source of liquidity includes our current cash and cash equivalents and internally generated cash flows from operations.

Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

Table of Contents

Forward-Looking Statements

This document contains forward-looking statements that involve risks and uncertainties. We use words such as anticipate, believe, plan, expect, future, intend and similar expressions to identify such forward-looking statements. You should not place too much reliance on these forward-looking statements.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the Securities and Exchange Commission, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls also are designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

The evaluation of our disclosure controls by our chief executive officer, who is also our acting chief financial officer, included a review of the controls' objectives and design, the operation of the controls, and the effect of the controls on the information presented in this Quarterly Report. Our management, including our chief executive officer, does not expect that disclosure controls can or will prevent or detect all errors and all fraud, if any. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Also, projections of any evaluation of the disclosure controls and procedures to future periods are subject to the risk that the disclosure controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on his review and evaluation as of the end of the period covered by this Form 10-Q, and subject to the inherent limitations all as described above, our chief executive officer, who is also our acting chief financial officer, has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) contain material weaknesses and are not effective.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The material weaknesses we have identified are the direct result of a lack of adequate staffing in our accounting department. Currently, our chief executive officer and a controller have sole responsibility for receipts and disbursements. We do not employ any other parties to prepare the periodic financial statements and public filings. Reliance on these limited resources impairs our ability to provide for a proper segregation of duties and the ability to ensure consistently complete and accurate financial reporting, as well as disclosure controls and procedures. As we grow, and as resources permit, we project that we will hire such additional competent financial personnel to assist in the segregation of duties with respect to financial reporting, and Sarbanes-Oxley Section 404 compliance.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Civil Action number 01-2226 between TeleChem International, Inc., Pediatrix Screening, Inc. and Pediatrix Screening LP went to jury trial in the United States District Court in the Western District of Pennsylvania in the summer of 2007. The jury awarded TeleChem \$5 million in damages for Pediatrix's breach of contract, fraudulent misrepresentation, and punitive damages. The jury awarded Pediatrix \$1,085,001 for TeleChem's breach of contract. Pediatrix appealed the jury's decision, and requested that the damages award to TeleChem be reduced. This appeal was denied. Pediatrix put \$5 million in bond, and submitted an appeal to the Third Circuit Court of Appeals to request that the damages award to TeleChem be reduced. The parties await the Third Circuit Court's response.

There are no other legal proceedings, although we may, from time to time, be party to certain legal proceedings and other various claims and lawsuits in the normal course of our business, which, in the opinion of management, are not material to our business or financial condition.

ITEM 1A – RISKS FACTORS

Not required for smaller reporting companies.

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

The Company issued 2,712,500 common shares unregistered shares on March 13, 2009 and March 16, 2009 as partial conversion of the Oral Agreement Debt.

ITEM 3- DEFAULTS UPON SENIOR SECURITIES

As part of the 'reverse merger' with Integrated Media Holdings, Inc., the ongoing Company took on the financial obligation for debt outstanding at the merger date. The predecessor debt amounts to \$2,047,974 at December 31, 2008, of which \$1,830,300 of original debt and \$163,150 of accrued interest is convertible into common shares. The entire \$2,047,974 is in default and is currently due. The debt conversion terms are such that decrease in the market value of our shares will materially increase the number of shares issuable pursuant to the terms of the debt notes. As the debt notes terms do not contain a floor on the conversion price, it is not possible to determine how many shares may ultimately be issuable under the terms of the notes payable. It is possible that the note holders, upon conversion could own a majority of the shares of the Company and it is further possible that the issuance of this unquantifiable number of our Company's shares will have a negative impact on the market price of our shares. While the terms of the Notes Payable limit the holdings of any one shareholder to 9.99%, there is no prohibition on that note holder from converting part of the debt, selling the resulting shares and then converting additional amounts of debt held. This could place additional downward pressure on the market price of our shares.

However the defaulted Senior Securities are covered by an Oral Agreement that

- (1) limits the issuance of shares upon conversion to 12,478,357
- (2) provides for the cessation of additional interest and penalties on the notes now in default
- (3) contemplates the conversion of the debt to common shares once the Company has sufficient authorized common share capital.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5 - OTHER INFORMATION

NONE

21

Table of Contents

ITEM 6 - EXHIBITS

31.1 Certification of Chief Executive Officer and Principal Accounting Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002. (Filed herewith)

32.1 Certification of Chief Executive Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith)

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Arrayit Corporation

Dated: August 11, 2009

By: /s/ RENE' A. SCHENA
Rene A Schena
Chairman , Director and CFO

Table of Contents

Exhibit 31.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rene A. Schena certify that:

1. I have reviewed this Quarterly Report on Form 10-Q Arrayit Corporation.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness

of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Rene A. Schena

Rene A. Schena
Chief Executive Officer
August 11, 2009

Table of Contents

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rene A. Schena certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arrayit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Rene A. Schena

Rene A. Schena
Chief Financial Officer
August 11, 2009

Table of Contents

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arrayit Corporation. (the “Company”) on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Rene A. Schena certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rene A. Schena

Rene A. Schena
Chief Executive Officer
August 11, 2009

Table of Contents

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arrayit Corporation. (the “Company”) on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Rene A. Schena certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Rene A. Schena

Rene A. Schena
Chief Financial Officer
August 11, 2009

Table of Contents