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Arrayit Corp
Form 10-Q
August 14, 2013

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, 2013

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 or Other Jurisdiction
of Incorporation or
Organization)

001-16381
(Commission
File Number)

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

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

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

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 per share

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OTCQB

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-Q or any amendment to this Form 10-Q. 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.

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

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

As of August 6, 2013, there were 30,134,093 shares of common stock outstanding.

Form 10-Q

For the Quarterly Period Ended June 30, 2013

TABLE OF CONTENTS

| | Page |
|--|------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Consolidated Financial Statements</u> | |
| <u>Consolidated Balance Sheets at June 30, 2013 (unaudited) and December 31, 2012(audited)</u> | 4 |
| <u>Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012 (unaudited)</u> | 5 |
| <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012 (unaudited)</u> | 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7 |
| <u>Item 2.</u> | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16 |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 19 |
| <u>Item 4.</u> | |
| <u>Controls and Procedures</u> | 19 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Legal Proceedings</u> | 21 |
| <u>Item 1A.</u> | |
| <u>Risk Factors</u> | 21 |
| <u>Item 2.</u> | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 21 |
| <u>Item 3.</u> | |
| <u>Defaults Upon Senior Securities</u> | 21 |
| <u>Item 4.</u> | |
| <u>Removed and Reserved</u> | 21 |
| <u>Item 5.</u> | |
| <u>Other Information</u> | 21 |
| <u>Item 6.</u> | |
| <u>Exhibits</u> | 22 |
| <u>Signatures</u> | 23 |
| Exhibit 31.1 | |
| Exhibit 31.2 | |
| Exhibit 32.1 | |
| Exhibit 32.2 | |

[Back to 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 of Financial Position and Results of Operations,” 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 to 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, and
- 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.

[Back to Table of Contents](#)

PART I – FINANCIAL INFORMATION

ITEM 1.

ARRAYIT CORPORATION
CONSOLIDATED BALANCE SHEETS

| | 06/30/2013 (unaudited) | 12/31/2012 |
|--|---------------------------|--------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 11,394 | \$ 518 |
| Accounts receivable, net | 277,190 | 227,743 |
| Inventory | 289,350 | 316,807 |
| Prepaid expenses | 2,250 | 2,250 |
| Total current assets | 580,184 | 547,318 |
| Deposits | 18,365 | 18,365 |
| Total assets | \$ 598,549 | \$ 565,683 |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 6,416,752 | \$ 6,567,136 |
| Bank overdraft | 0 | 129,495 |
| Due to related parties | 540,033 | 577,033 |
| Customer deposits | 47,164 | 4,895 |
| Notes payables, current portion including related parties | 898,696 | 929,269 |
| Total current liabilities | 7,902,645 | 8,207,828 |
| Notes payable, long term | 0 | 0 |
| Total liabilities | 7,902,645 | 8,207,828 |
| Commitments and contingencies | 0 | 0 |
| Stockholders' Deficit | | |
| Preferred stock, \$0.001 par value; 20,000,000 shares authorized; | | |
| Preferred stock, Series A, 22,034 shares outstanding | 22 | 22 |
| Preferred stock, Series C, \$0.001 par value; 88,574 and 88,888 shares outstanding | 92 | 92 |
| Common stock, \$0.001 par value; 480,000,000 shares authorized, 29,635,255 and 28,179,096 issued and outstanding | 29,444 | 27,988 |
| Additional paid-in capital | 16,818,886 | 16,645,342 |
| Accumulated deficit | (24,152,540) | (24,315,589) |
| Total stockholders' (deficit) | (7,304,096) | (7,642,145) |
| Total liabilities and stockholders' deficit | \$ 598,549 | \$ 565,683 |

The accompanying notes are an integral part of these consolidated financial statements

[Back to Table of Contents](#)

ARRAYIT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| Statement of Operations | For the Three Months Ended June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months ended June 30, 2013 | For the Six Months ended June 30, 2012 |
|---|--|--|---|---|
| Total Revenues | \$602,672 | \$735,427 | \$1,545,588 | \$1,303,702 |
| Cost of Sales | 376,896 | 361,859 | 832,408 | 714,182 |
| Gross Margin | 225,776 | 373,568 | 713,180 | 589,520 |
| Selling, General and Administrative | 239,382 | 395,029 | 489,902 | 1,739,680 |
| Research and Development | 1,215 | 25,000 | 1,215 | 25,450 |
| Legal Expense | 7,692 | 16,159 | 37,907 | 43,586 |
| Income (loss) from operations | (22,513) | (62,620) | 184,156 | (1,219,196) |
| Interest expense | (73,379) | (52,096) | (191,953) | (94,499) |
| Gain on extinguishment of liabilities | 23,463 | 0 | 165,534 | 0 |
| Bad debt recovery | 0 | 0 | 5,312 | 0 |
| Net income (loss) | (72,429) | (114,716) | 163,049 | (1,313,695) |
| Less: Net loss attributable to the non-controlling interest | 0 | (55,552) | 0 | (416,404) |
| Net Income (Loss) attributable to common stockholders | (72,429) | (59,164) | 163,049 | (897,291) |
| Income (Loss) per share - basic | \$.00 | \$ (.00) | \$.01 | \$ (.03) |
| Income (Loss) per share – diluted | \$.00 | \$ (.00) | \$.00 | \$ (.03) |
| Basic weighted average number of common shares | 28,453,651 | 27,477,062 | 28,370,144 | 27,245,769 |
| Diluted weighted average number of common shares | 28,453,651 | 27,477,062 | 59,378,095 | 27,245,769 |

The accompanying notes are an integral part of these consolidated financial statements

[Back to Table of Contents](#)

ARRAYIT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | For the Six Months Ended June 30 | |
|---|-------------------------------------|---------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 163,049 | \$(1,313,695) |
| Adjustments to reconcile net income (loss) to net cash provided by (used by) operating activities: | | |
| Depreciation | 0 | 6,546 |
| Stock paid for services | 0 | 36,150 |
| Gain on extinguishment of liabilities | (165,534) | 0 |
| Bad debt recovery | (5,312) | 0 |
| Increase in non-controlling interest | 0 | 1,074,867 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (53,248) | 94,057 |
| Inventory | 27,457 | (86,619) |
| Accounts payable and accrued liabilities | (126,766) | 350,327 |
| Bank overdraft | (129,495) | (93,006) |
| Due to related parties | (37,000) | (17,500) |
| Accrued interest | 191,953 | 49,069 |
| Customer deposits | 42,269 | 0 |
| Net cash provided by (used by) operating activities | (92,627) | 100,196 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 175,000 | 0 |
| Proceeds from notes payable | 0 | 25,320 |
| Repayment of notes payable | (71,497) | (105,202) |
| Net cash provided by (used by) financing activities | 103,503 | (79,882) |
| Net increase in cash | 10,876 | 20,314 |
| Cash, beginning of period | 518 | 1,519 |
| Cash, end of period | \$ 11,394 | \$ 21,833 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 31,118 | \$ 0 |
| Noncash Transaction: | | |
| Conversion of preferred stock | \$ 110 | \$ 610 |

The accompanying notes are an integral part of these consolidated financial statements

[Back to Table of Contents](#)

ARRAYIT CORPORATION
NOTES TO CONSOLIDATED UNAUDITED STATEMENTS
June 30, 2013

NOTE 1 – ORGANIZATION AND BUSINESS OPERATIONS

Arrayit Corporation (the “Company” or “Arrayit”) is a Nevada “C” Corporation that entered into the life sciences industry 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 and patented 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 manufacturing 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.

Arrayit has a December 31 year end.

Arrayit’s principal office is in Sunnyvale, California. Arrayit presently has nine employees.

Interim financial statements

The accompanying unaudited 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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in Arrayit’s Annual Report filed with the SEC on Form 10-K/A. 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 disclosures contained in the audited financial statements for fiscal year 2012 as reported in Form 10-K/A, have been omitted.

[Back to Table of Contents](#)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Basis of Presentation

The following includes a description of subsidiaries and percentage ownership at June 30, 2013:

| Subsidiary | Date of Incorporation | Business of Entity | Ownership |
|------------------------------------|-----------------------|--|---|
| TeleChem International, Inc. | November 1, 1993 | Import, export, manufacturing and distribution of wholesale industrial chemicals | 100% owned by Arrayit Corporation |
| Arrayit Scientific Solutions, Inc. | October 15, 2009 | Markets a test for Parkinson's Disease incorporating the technology and equipment developed by Arrayit Corporation | 98% owned by Arrayit Corporation and 2% owned by the former President of Arrayit Scientific Solutions, Inc. |
| Avant Diagnostics, Inc. | June 2, 2009 | Markets a test for Ovarian Cancer incorporating the technology and equipment developed by Arrayit Corporation | 44% owned by Arrayit Corporation |

The Company had previously consolidated the financial statements of Avant Diagnostics, Inc. as a majority owned subsidiary and this is reflected in the unaudited consolidated financial statements for the three and six months ended June 30, 2012. On December 31, 2012, Avant Diagnostics, Inc. issued additional shares of its common stock which reduced the Company's ownership interest in Avant Diagnostics, Inc. so that the Company no longer had a controlling financial interest. In accordance with FASB ASC 810-10-40, "Deconsolidation of a Subsidiary or Derecognition of a Group of Assets", as of December 31, 2012, the Company deconsolidated its majority ownership interest and recognized a non-cash, net gain on the transaction. Thus, the Company's June 30, 2013 unaudited financial statements do not include the effect of the financial statements of Avant Diagnostics, Inc.

On December 12, 2011, Arrayit Corporation signed an Agreement and Plan of Distribution with its subsidiary, Avant Diagnostics, Inc., whereby 19,350,000 shares of common stock of Avant Diagnostics (44% of the total outstanding) owned by Arrayit Corporation will be distributed ratably to the shareholders of Arrayit Corporation on the record date which will occur upon approval by the SEC of the Form S-1 registration statement to be submitted by Avant Diagnostics, Inc.

Summary of Significant Accounting Policies

Financial Reporting:

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. Revenues and expenses are reported on the accrual basis, which means that income is recognized as it is earned and expenses are recognized as they are incurred. Inventories are stated at the lower of cost or market, cost determined on the basis of FIFO. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Management acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

[Back to Table of Contents](#)

Non-Controlling Interest:

Arrayit Corporation is the controlling interest of an affiliated group, since it maintains investments in each of its operating entities. Effective December 12, 2011, Arrayit Corporation, signed an Agreement and Plan of Distribution with its subsidiary, Avant Diagnostics, Inc., whereby 19,350,000 shares of common stock of Avant Diagnostics (44% of the total outstanding) owned by Arrayit Corporation will be distributed ratably to the shareholders of Arrayit Corporation on the record date which occur upon approval by the SEC of the Form S-1 registration statement to be submitted by Avant Diagnostics, Inc. The shares of Arrayit Corporation entitled to participate in the “spin-off” shares will include shares of Arrayit Corporation issuable on the record date upon conversion of outstanding securities and exercise of outstanding warrants and options.

The Company accounts for the non-controlling interest in its subsidiaries under ASC 810-10-45-16, Non-controlling Interest in a Subsidiary. This standard defines a non-controlling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The standard requires, among other items, that a non-controlling interest be included in the consolidated statement of financial position within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and non-controlling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and non-controlling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. Additionally, the standard defines a non-controlling interest as a financial instrument issued by a subsidiary that is classified as equity in the subsidiary's financial statements. A financial instrument issued by a subsidiary that is classified as a liability in the subsidiary's financial statements based on the guidance in other standards is not a controlling interest because it is not an ownership interest.

Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

Income/Loss per Common and Common Equivalent Share

The computation of basic income/loss per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from their exercise using the treasury stock method and the average market price per share during the year. The Company determined that the effect of common stock equivalents (Stock Options, Stock Warrants and convertible Series “C” Preferred Shares) outstanding at June 30, 2013 should be included in diluted earnings per common share for the six months ended June 30, 2013. The effect of common stock equivalents for the three months ended June 30, 2013 and for the periods in 2012 were anti-dilutive.

[Back to Table of Contents](#)

NOTE 3 – GOING CONCERN

The accompanying consolidated financial statements of the Company were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has large working capital and accumulated deficits. At June 30, 2013, Arrayit had a working capital deficit of \$7,322,461 and an accumulated deficit of \$24,152,540. Management believes that current available resources will not be sufficient to fund the Company's planned expenditures over the next 12 months. The Company's ability to continue to meet its obligations and to achieve its business objectives is dependent upon, among other things, raising additional capital or generating sufficient revenue in excess of costs. At such time as the Company requires additional funding, the Company will seek to raise such additional funding from various possible sources, including its parent company, the public equity market, private financings, sales of assets, collaborative arrangements and debt. If the Company raises additional capital through the issuance of equity securities or securities convertible into equity, stockholders will experience dilution, and such securities may have rights, preferences or privileges senior to those of the holders of common stock or convertible senior notes. If the Company raises additional funds by issuing debt, the Company may be subject to limitations on its operations, through debt covenants or other restrictions. If the Company obtains additional funds through arrangements with collaborators or strategic partners, the Company may be required to relinquish its rights to certain technologies or products that it might otherwise seek to retain. There can be no assurance that the Company will be able to raise additional funds, or raise them on acceptable terms. If the Company is unable to obtain financing on acceptable terms, it may be unable to execute its business plan, the Company could be required to delay or reduce the scope of its operations, and the Company may not be able to pay off its obligations, if and when they come due.

These factors create substantial doubt about Arrayit's ability to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded assets and liabilities or other adjustments that may be necessary should the Company not be able 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 – ACCOUNTS RECEIVABLE

Accounts receivable are shown net of an Allowance for Doubtful Accounts. As more fully explained in Note 5 below, accounts receivable has been reduced by Accounts Receivable loans sold with recourse.

| | June 30, 2013 | December 31, 2012 |
|---|-------------------|-------------------------|
| Gross accounts receivable | \$ 639,744 | \$ 590,449 |
| Less: | | |
| Allowance for doubtful accounts | (133,000) | (133,000) |
| Loan value of receivables sold with recourse (see note 5) | (229,554) | (229,706) |
| Total | \$ 277,190 | \$ 227,743 |

[Back to 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 \$450,000, and is limited to receivables that are less than 31 days outstanding. The facility bears interest at 16% at June 30, 2013, and is secured by an unconditional guarantee of the Company and a first charge against the Accounts Receivable. At June 30, 2013, the balance outstanding under the recourse contracts was \$229,554 net of a hold back reserve of \$152,282 (December 31, 2012, \$229,706 net of a hold back reserve of \$86,984). 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 – FIXED ASSETS

Property and equipment consisted of the following:

| | June 30, 2013 | December 31, 2012 |
|-------------------------------|------------------|-------------------------|
| Fixed Assets – Cost | \$311,157 | \$311,157 |
| Less Accumulated Depreciation | (311,157) | (311,157) |
| Total | \$0 | \$0 |

Depreciation expense totaled \$0 and \$6,546, respectively, for the six months ended June 30, 2013 and 2012.

NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities, consisted of the following:

| | June 30, 2013 | December 31, 2012 |
|----------------------------|------------------|-------------------------|
| ACCOUNTS PAYABLE | | |
| Trade vendors | \$1,368,122 | \$1,488,622 |
| Professional advisors | 2,891,021 | 3,059,594 |
| Total Accounts Payable | 4,259,143 | 4,548,216 |
| ACCRUED LIABILITIES | | |
| Accrued salaries and wages | 1,140,109 | 1,127,089 |
| Judgment interest | 608,073 | 482,404 |
| Other | 409,427 | 409,427 |
| Total Accrued Liabilities | 2,157,609 | 2,018,920 |

| | | |
|-------|-----------|-----------|
| TOTAL | 6,416,752 | 6,567,136 |
|-------|-----------|-----------|

11

[Back to Table of Contents](#)

NOTE 8 – DEBT

| | June 30, 2013 | December 31, 2012 |
|--|------------------|----------------------|
| NOTES PAYABLE - ARRAYIT CORP. | | |
| Notes payable, interest at 10%, which was due August 10, 2010 and is now past due, secured by 1,000,000 shares out of the Company's common stock, pledged to the private lender without compensation by the Company's Chairman. Interest is being accrued at 25% default rate. The terms also called for the lender to withhold proceeds of \$20,000 as a debt origination fee and the issuance of 200,000 warrants issuable for shares of common stock at \$1.00 per share. | \$288,750 | \$ 275,000 |
| Note payable, 0% interest, due on demand together with 75,000 shares in the form of common stock warrants | 15,000 | 15,000 |
| Notes payable, interest at 8%, unsecured due on demand from Arrayit creditors | 31,082 | 30,749 |
| Notes payable, interest at rates varying from 8% to 10%, unsecured due on demand from the former TeleChem shareholders and their families. | 563,864 | 608,520 |
| Total notes payable, including related parties | \$898,696 | \$ 929,269 |
| Short Term Debt | \$898,696 | \$ 929,269 |
| Long Term Debt | \$0 | \$ 0 |

NOTE 9 – WARRANTS AND OPTIONS

The following table summarizes options and warrants outstanding at June 30, 2013:

| | Number of Options and Warrants | Weighted Average Exercise Price Per Share |
|-------------------------------------|---|---|
| Outstanding at December 31, 2012 | 1,915,000 | \$0.08 |
| Granted | - | - |
| Cancelled/forfeited | - | - |
| Expired | 1,550,000 | \$.05 |
| Exercised | - | - |
| Outstanding at June 30, 2013 | 365,000 | \$0.23 |

[Back to Table of Contents](#)

NOTE 10 – ROYALTY OBLIGATIONS

The Parkinson's Institute – ARRAYIT SCIENTIFIC SOLUTIONS, INC.

Pursuant to an agreement dated February 9, 2009 between the Company, and The Parkinson's Institute, a California Corporation, Arrayit Scientific Solutions, Inc. is obligated to make payments, of 5% of gross earnings generated from Research derived from the biological specimens from Parkinson's disease patients and control patients provided by the Parkinson's Institute.

There were no revenues generated during the fiscal periods ended June 30, 2013 and hence no obligation to pay any royalties to the Parkinson's Institute.

NOTE 11 – STOCK-BASED COMPENSATION

The Company adopted ASC 718 and ASC 505, "Share-Based Payment", to account for its stock options and similar equity instruments issued. Accordingly, compensation costs attributable to stock options or similar equity instruments granted are measured at the fair value at the grant date, and expensed over the expected vesting period. ASC 718 and ASC 505 requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

Operations for the periods ended June 30, 2013 and June 30, 2012 include \$0 and \$36,150 of stock-based compensation, arising from the granting of 0 and 106,325 unregistered common shares, respectively. Restricted shares were issued in exchange for services related to website consulting and investor relations. The Company relied upon the exemption under Section 4(2) of the Securities Act.

NOTE 12 – CONVERTIBLE PREFERRED STOCK

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. Both the conversion ratio of the preferred into common and the number of shares outstanding is subject to revision upon reverse stock dividends or splits that reduce the total shares outstanding.

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. 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 shares to 10% of the holders' original holdings in any quarter. During the six months ended June 30, 2013 and June 30, 2012, respectively, 314 and 1,853 Series C Preferred Stock shares were converted into 110,005 and 720,020 shares of common stock, respectively.

[Back to Table of Contents](#)

NOTE 13 – STOCKHOLDERS' EQUITY

TOTAL ARRAYIT CORPORATION STOCKHOLDERS' EQUITY (DEFICIENCY)

| Description | Preferred Series A | | Preferred Series C | | Common Stock | | Additional Paid In Capital | | Retained Earnings | Total |
|---|--------------------|--------|--------------------|--------|--------------|-----------|----------------------------|--|-------------------|---------------|
| | Number | Dollar | Number | Dollar | Number | Dollar | | | | |
| Balance, December 31, 2012 | 22,034 | \$ 22 | 88,888 | \$ 92 | 28,179,096 | \$ 27,988 | \$ 16,645,342 | | \$(24,315,589) | \$(7,642,145) |
| Convert Preferred C to Common | | | (314) | - | 110,005 | 110 | (110) | | | - |
| Common Stock Issued for Cash | | | | | 1,346,154 | 1,346 | 173,654 | | | 175,000 |
| Net income for the six months ended June 30, 2013 | | | | | | | | | 163,049 | 163,049 |
| Balance, June 30, 2013 (unaudited) | 22,034 | \$ 22 | 88,574 | \$ 92 | 29,635,255 | \$ 29,444 | \$ 16,818,886 | | \$(24,152,540) | \$(7,304,096) |

NOTE 14 – INCOME TAXES

At June 30, 2013 and December 31, 2012, the Company had net operating loss (NOL) carry-forwards available to offset future taxable income of approximately \$24 million. 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 likely that utilization of the NOL carry-forwards are limited based on changes in control. A valuation allowance of approximately \$9.3 million and \$9.5 million has been recorded against the deferred tax asset as of June 30, 2013 and December 31, 2012, respectively, due to the uncertainty surrounding its realization caused by the Company's recurring losses. The NOL carry-forwards will fully expire in 2032.

[Back to Table of Contents](#)

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Long Term Lease Commitments

The Company leases its office facility in Sunnyvale, California under operating leases that expire November 30, 2013. Future minimum lease payments as of June 30, 2013 are as follows:

YEAR ENDING

| | |
|------|----------|
| 2013 | \$61,686 |
|------|----------|

Rent expense was \$73,554 and \$78,966 for the six months ended June 30, 2013 and 2012, respectively.

NOTE 16 – SUBSEQUENT EVENTS

On July 18, 2013, the Company issued 500,000 restricted shares of its common stock to WEM Equity Capital Investments, Ltd. as payment in full for debts owed by its subsidiary, Avant Diagnostics, Inc. to WEM Equity Capital Investments. The total debt amount owed was \$65,000 plus interest.

[Back to Table of Contents](#)

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

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, 2013, this "Management's Discussion and Analysis" should be read in conjunction with the 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/A for the year ended December 31, 2012. 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 significant 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/A for the year ended December 31, 2012 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 generally affect 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.

Results of Operations

Comparison of Operating Results –Three Months Ended June 30, 2013 and 2012

Gross revenues for the three months ended June 30, 2013 and 2012 were \$602,672 and \$735,427, respectively, representing an 18% decrease in gross revenues for the period. This decrease in sales was caused by a delay in manufacturing SpotBot Microarray Printing Instruments. The backlog of orders for the period ending June 30, 2013 is approximately \$285,480 and the backlog of orders was approximately \$688,000 for the period ending June 30, 2012.

The cost of sales for the three months ended June 30, 2013 and 2012 were \$376,896 and \$361,859, respectively resulting in gross profit for the period of \$225,776 and \$373,568, respectively. The Company's cost of sales is dependent upon product mix. During the second quarter of 2013, the gross margin was 37% versus 51% for the first quarter of 2012. The Company sold more commodity chemicals in the second quarter of 2013, which have a lower gross margin percentage than the microarray manufacturing instruments and consumables that were sold in the second

quarter ended June 30, 2012.

16

[Back to Table of Contents](#)

Selling, general and administrative expenses for the three months ended June 30, 2013 and 2012 were \$239,382 and \$395,029, respectively. The decrease of \$155,647 is largely attributable to a reduction in consulting fees incurred during the three months ended June 30, 2013.

Legal expenses of \$7,692 for the three months ended June 30, 2013 were mostly attributable to litigation with Baker Hughes against our subsidiary TeleChem International, Inc. and Arrayit Corporation and to patent maintenance expenses. Legal expenses of \$16,159 for the three months ended June 30, 2012 were mostly attributable to preparing the S-1 registration statement for Avant Diagnostics, Inc. and maintenance fees on the patents of TeleChem International, Inc. and Arrayit Corporation.

Net loss from operations was \$22,513 for the three months ended June 30, 2013, compared with a net loss from operations of \$62,620 for the three months ended June 30, 2012. The decrease in net operating loss is due primarily to the decrease in consulting fees, offset by the decrease in gross revenues based on profitability of the product mix sold during the periods.

Interest expense was \$73,379 for the three months ended June 30, 2013, compared to \$52,096 for the three months ended June 30, 2012. The increase in interest costs was the result of additional interest accrued related to judgment settlements and third party and related party notes payable. Other income for the three months ended June 30, 2013 includes gain on extinguishment of liabilities of \$23,463.

Comparison of Operating Results –Six Months Ended June 30, 2013 and 2012

Gross revenues for the six months ended June 30, 2013 and 2012 were \$1,545,588 and \$1,303,702, respectively, representing a 19% increase in gross revenues for the period. The Company was able to fulfill some of its backlog of orders, and attributes the increase in gross revenues to fulfilling orders for high-throughput instruments, in particular NanoPrint LM60, SpotBot Titan and InnoScan 710AL.

The backlog of orders for the six months ending June 30, 2013 and 2012 was \$285,480 and approximately \$688,000, respectively.

The cost of sales for the six months ended June 30, 2013 and 2012 were \$832,408 and \$714,182, respectively resulting in gross profit for the period of \$713,180 and \$589,520, respectively. The Company's cost of sales is dependent upon product mix. During the six months ended June 30, 2013, the gross margin was 46% versus 45% for the six months ended June 30, 2012. Gross margin was consistent between the two periods as the Company's higher sales of more high-throughput instruments during the first three months of 2013 were offset by higher sales of commodity chemicals in the second quarter of 2013, which have a lower gross margin percentage.

Selling, general and administrative expenses for the six months ended June 30, 2013 and 2012 were \$489,902 and \$1,739,680, respectively. The decrease of \$1,249,778 is largely attributable to a reduction in consulting fees incurred during the six months ended June 30, 2013.

[Back to Table of Contents](#)

Legal expenses of \$37,907 for the six months ended June 30, 2013 were mostly attributable to litigation with Baker Hughes against our subsidiary TeleChem International, Inc. and Arrayit Corporation, litigation with Recap Marketing and Consulting LLP, and to patent maintenance expenses. Legal expenses of \$43,586 for the six months ended June 30, 2012 were mostly attributable to settling the Pediatrix lawsuit, preparing the S-1 registration statement for Avant Diagnostics, Inc. and maintenance fees on the patents of TeleChem International, Inc. and Arrayit Corporation.

Net income from operations was \$184,156 for the six months ended June 30, 2013, compared with a net loss from operations of \$1,219,196 for the six months ended June 30, 2012. The increase in net operating income is due primarily to the large decrease in consulting fees.

Interest expense was \$191,953 for the six months ended June 30, 2013, compared to \$94,499 for the six months ended June 30, 2012. The increase in interest costs was the result of additional interest accrued related to judgment settlements and third party and related party notes payable. Other income for the six months ended June 30, 2013 includes gain on extinguishment of liabilities of \$165,534 and bad debt recovery of \$5,312.

Liquidity and Capital Resources

Cash flows used in operations were \$92,627 for the six months ended June 30, 2013, and cash provided by operations was \$100,196 for the six months ended June 30, 2012. As of June 30, 2013, we had a working capital deficiency of \$7,322,461 and an accumulated deficit of \$24,152,540. The working capital deficiency, in addition to amounts payable in the normal course of business, is primarily attributable to accrued legal expenses, deferred compensation, and judgment interest.

We currently have no commitments, understandings or arrangements for any additional working capital. If we are unable to secure additional financing to cover our operating losses until breakeven operations can be achieved we may not be able to continue as a going concern. We are not aware of any trends, events or uncertainties that have a material impact upon our short-term or long-term liquidity.

We estimate that we may require approximately \$2 million over the next twelve (12) months to meet our expenses and to expand current operations to meet customer demands for our products and services. We may require additional funds over the next eighteen (18) months to assist in realizing our business objectives and for continuing research and development. The amount and timing of additional funds required will be dependent on a variety of factors and cannot be determined at this time. The Company has been successful in paying its operating costs and funding its development from operations supplemented by short term borrowings from officers and third parties. We cannot be certain that we will be able to raise any additional capital to fund our ongoing operations.

Even if we cannot raise additional capital, we believe that we will be able to continue operations for the next 12 months, based on the funding currently provided and revenues that we anticipate generating in the near future. Our investors should assume that any additional funding may cause substantial dilution to current stockholders. In addition, we may not be able to raise additional funds on favorable terms, if at all.

[Back to Table of Contents](#)

Source of Liquidity

During the three months ended June 30, 2013, the Company raised \$175,000 of working capital from an accredited investor, and also relied upon short term loans and extended terms from its creditors to finance its operations.

Off-Balance Sheet Arrangements

We currently have no off-balance sheet arrangements.

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

(a) Evaluation of disclosure 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.

[Back to Table of Contents](#)

Based on this 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.

(b) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the quarter.

[Back to Table of Contents](#)

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 29, 2013, Plaintiffs Baker Hughes, Inc. filed a Notice of Motion and Motion to Amend Judgment in Case No. 106 CV 075502 against the Company's subsidiary, Defendant TeleChem International, Inc., seeking to include other subsidiaries and name changed corporate parent as judgment debtors. The Company's counsel defended this action at the Santa Clara County Municipal Court on April 18, 2013. On April 18, 2013, the judge of the Superior Court granted the motion to include Arrayit Corporation as a judgment debtor, and denied the motion to include other subsidiaries (Arrayit Scientific Solutions, Inc. and Avant Diagnostics, Inc.) as judgment debtors. Although previous attempts at settlement have been unsuccessful, Arrayit Corporation and TeleChem International, Inc. will continue attempts to reach a settlement agreement with Baker Hughes, Inc.

On March 13, 2013, Plaintiffs Recap Marketing and Consulting LLP sued Defendants Arrayit Corporation in Fort Bend County Texas Case No. 13-DCV-204747 for breach of contract with regard to warrants to purchase common stock. Recap seeks damages or specific performance, exemplary damages, costs of court and reasonable attorney's fees. On April 16, 2013, the Company's counsel submitted an unopposed motion to transfer venue to Harris County Texas and, subject to the motion to transfer venue, original answer denying the allegations and offered the affirmative defences of failure of condition precedent and expiration of contract, estoppel, failure of consideration and waiver, and in the alternative that the number of shares is incorrect. The parties await the 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

NONE

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4 – REMOVED AND RESERVED

NONE

ITEM 5 – OTHER INFORMATION

NONE

[Back to 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)

[Back to Table of Contents](#)

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 14, 2013

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