HEARTLAND FINANCIAL USA INC
Form 10-Q
May 12, 2008

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

FORM 10-Q

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

For quarterly period ended March 31, 2008

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For transition period _____ to _____

Commission File Number: 0-24724

HEARTLAND FINANCIAL USA, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

42-1405748
(I.R.S. employer identification number)

1398 Central Avenue, Dubuque, Iowa 52001
(Address of principal executive offices)(Zip Code)

(563) 589-2100
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). Yes No x

Indicate the number of shares outstanding of each of the classes of Registrant's common stock as of the latest practicable date: As of May 8, 2008, the Registrant had outstanding 16,307,374 shares of common stock, $1.00 par value per share.

HEARTLAND FINANCIAL USA, INC.
Form 10-Q Quarterly Report

PART I

ITEM 1. FINANCIAL STATEMENTS

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	$ 33,572	$ 46,468
Federal funds sold and other short-term investments	16,569	364
Cash and cash equivalents	50,141	46,832
Securities:		
Trading, at fair value	1,786	1,888
Available for sale, at fair value (cost of $713,493 at March 31, 2008, and $672,499 at December 31, 2007)	727,239	682,383
Held to maturity, at cost (fair value of $5,567 at March 31, 2008, and $5,754 at December 31, 2007)	5,665	5,678
Loans held for sale	11,222	12,679
Gross loans and leases:		
Held to maturity	2,271,663	2,280,167
Allowance for loan and lease losses	(33,695)	(32,993)
Loans and leases, net	2,237,968	2,247,174
Premises, furniture and equipment, net	119,542	120,285
Other real estate, net	2,714	2,195
Goodwill	40,207	40,207
Other intangible assets, net	8,416	8,369
Cash surrender value on life insurance	56,018	55,532
Other assets	39,562	40,904
TOTAL ASSETS	$ 3,300,480	$ 3,264,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Demand	$ 377,709	$ 381,499
Savings	863,067	855,036
Time	1,180,163	1,139,764
Total deposits	2,420,939	2,376,299
Short-term borrowings	226,106	354,146
Other borrowings	380,479	263,607
Accrued expenses and other liabilities	37,103	39,474
TOTAL LIABILITIES	3,064,627	3,033,526
STOCKHOLDERS' EQUITY:		
Preferred stock (par value $1 per share; authorized, 184,000 shares; none issued or	-	-

outstanding)				
Series A Junior participating preferred stock (par value $1 per share; authorized, 16,000 shares; none issued or outstanding)		-		-
Common stock (par value $1 per share; authorized, 20,000,000 shares; issued 16,611,671 shares at March 31, 2008, and December 31, 2007)		16,612		16,612
Capital surplus		37,480		37,269
Retained earnings		177,750		173,891
Accumulated other comprehensive income		9,763		6,506
Treasury stock at cost (299,287 shares at March 31, 2008, and 184,655 shares at December 31, 2007)		(5,752)		(3,678)
TOTAL STOCKHOLDERS' EQUITY		235,853		230,600
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	3,300,480	$	3,264,126

See accompanying notes to consolidated financial statements.

HEARTLAND FINANCIAL USA, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended	
	March 31, 2008	March 31, 2007
INTEREST INCOME:		
Interest and fees on loans and leases	$ 42,899	$ 45,558
Interest on securities:		
Taxable	6,615	5,297
Nontaxable	1,647	1,458
Interest on federal funds sold and other short-term investments	131	-
Interest on interest bearing deposits in other financial institutions	5	10
TOTAL INTEREST INCOME		

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Basis of Presentation

Through May 23, 2011, the date in which the Company entered into equity transactions relating to its Arrayit Diagnostics, Inc. subsidiary as will be described below, the accompanying Consolidated Financial Statements include the following majority-owned subsidiaries for all or a portion of the periods indicated, each of which has been consolidated since the date the Company acquired majority-voting control (collectively, the Consolidated Subsidiaries):

Subsidiary	Date of Incorporation	Business of Entity	Ownership
Arrayit Diagnostics, Inc.	June 2, 2009	Develops medical tests and through its partially owned subsidiaries markets these tests to the medical community. incorporating the technology and equipment developed by Arrayit Corporation	80% owned by Arrayit Corporation
Arrayit Diagnostics (Ovarian), Inc.	June 16, 2009	Markets a test for Ovarian Cancer incorporating the technology and equipment developed by Arrayit Corporation	80% owned by Arrayit Diagnostics, Inc.
Arrayit Diagnostics (Parkinson), Inc.	October 15, 2009	Markets a test for Parkinson s Disease incorporating the technology and equipment developed by Arrayit Corporation	80% owned by Arrayit Diagnostics, Inc.

On May 23, 2011, Arrayit Diagnostics, Inc. (Diagnostics) acquired the outstanding 20% non-controlling interest in Ovarian, recognizing no gain or loss on the transaction. Ovarian was then

collapsed into Diagnostics, which continues to be an 80% subsidiary of the Company. Also on May 23, 2011, Diagnostics acquired the outstanding 20% non-controlling interest in Parkinson, also recognizing no gain or loss on the transaction, and distributed the now 100% owned subsidiary directly to Arrayit Corporation. As part of the exchange, Parkinson s name was changed to Arrayit Scientific Solutions, Inc. As a result, beginning on May 23, 2011, the accompanying Consolidated Financial Statements include the following majority owned subsidiaries:

Subsidiary	Date of Incorporation	Business of Entity	Ownership
Arrayit Diagnostics, Inc.	June 2, 2009	Markets a test for Ovarian Cancer incorporating the technology and equipment developed by Arrayit Corporation	80% 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	100% owned by Arrayit 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.

Management further 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.

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:

Overview

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. In instances where final acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met.

Product Sales

Product sales include sales of microarrays, reagents and related instrumentation. Microarray, reagent and instrumentation revenues are

recognized when earned, which is generally upon shipment and transfer of title to the customer and fulfilment of any significant post-delivery obligations. Accruals are provided for anticipated warranty expenses at the time the associated revenue is recognized.

Services

Services revenue is comprised of equipment service revenue; revenue from custom microarray design fees; and scientific services revenue, which includes associated consumables.

Diagnostic Revenue

Revenue from medical testing and scientific services is recognized upon shipment of the reported results.

Other Income

The Company recognizes interest income as earned.

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 Company follows accounting guidance relating to fair value measurements. This guidance

establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

The asset or liability s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the unobservable inputs.

The fair value of the Company s notes payable and derivative liability approximate stated value. The notes payable fair value was based on Level 2 inputs and the derivative liability fair value based on Level 3 inputs. See notes 8 and 9.

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.

Derivative Instruments

Derivatives were recorded on the balance sheet at fair value. These derivatives, including embedded derivatives, were separately valued and accounted for on our balance sheet.

Accounting guidance related to Accounting for derivative financial instruments indexed to and potentially settled in, a company's own stock, requires freestanding contracts that are settled in a company's own stock, including warrants to purchase common stock, to be designated as an equity instrument, asset or a liability. Under these

provisions, a contract designated as an asset or a liability must be carried at fair value on a company s balance sheet, with any changes in fair value recorded in the company s results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required.

Income Taxes

Upon completion of the March 19, 2009 transaction with IMHI as more fully described in Note 1, 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.

Accounting for Uncertainty in Income Taxes

The Financial Accounting Standards Board has issued guidance on Accounting for Uncertainty in Income Taxes, FASB ASC 740, Income Taxes which 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. Management has concluded that the Company has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

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 calculations when their effect is anti-dilutive.

Stock-Based Compensation

The Company accounts for stock issued to employees, officers and directors in accordance with accounting standards for share-based payments which 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.

Non-Controlling Interest:

The Company accounts for the non-controlling interest in its two 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.

Royalty interests that entitle the holder to participate in future earnings and are not repayable are classified as non-controlling interests.

Deferred Offering Costs:

The Company may incur legal and accounting fees, as well as due diligence fees related to the preparation of our pending financing. Such costs are initially deferred until the offering is completed, at which time they are recorded as a reduction of gross proceeds from the offering, or expensed to operations if the offering is unsuccessful.

Nature and Classification of the Non-Controlling Interest in the Consolidated Financial Statements:

Arrayit Corporation is the controlling interest of the affiliated group, since it maintains an investment in each of the operating entities. Arrayit Corporation has an 80% ownership investment in Arrayit Diagnostics, Inc., which in turn has 100% interest in Arrayit Scientific Solutions, Inc., as of September 30, 2011.

A non-controlling interest is the portion of the equity in a subsidiary not attributable, directly or indirectly, to a parent. A non controlling interest is the ownership held by owners other than the consolidating parent. The non-controlling interest is reported in the consolidated statement of financial position separately from the parent's equity, within the equity section of the balance sheet. The minority interest in the current year s income (loss) is segregated from the earnings (loss) attributable to the controlling parent. Minority ownership equity interest in the consolidating subsidiaries is increased by equity contributions and proportionate share of the subsidiaries earnings and is reduced by dividends, distributions and proportionate share of the subsidiaries incurred losses.

Recent Accounting Pronouncements

12. Recently Issued Accounting Standards

In September 2011, the FASB issued an amendment to Topic 350, Intangibles Goodwill and Other, which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the

amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described under paragraphs 350-20-35-4 and 350-20-35-9 under Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years

beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating the new standard.

The Company has reviewed all recently issued, but not 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.

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 incurred significant net losses and negative cash from operations since it was a party to the Pediatrix legal dispute. At September 30, 2011, Arrayit had a working capital deficit of $8,035,863, a stockholders' deficit of $7,971,945, and recurring net losses. The Company currently devotes a significant amount of its resources on developing clinical protein biomarker diagnostic products and services, and it does not expect to generate substantial revenue until certain diagnostic tests are cleared by the United States Food and Drug Administration and commercialized. 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.

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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 also been reduced by Accounts Receivable loans sold with recourse.

	September 30, 2011	December 31, 2010
Gross accounts receivable	$ 555,755	$ 508,952
Less:		
Allowance for doubtful accounts	(100,000)	(133,000)
Loan value of receivables sold with recourse (see note 5)	(287,745)	(188,710)
Total	$ 168,010	$ 187,242

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 September 30, 2011, and is secured by an unconditional guarantee of the Company and a first charge against the Accounts Receivable. At September 30, 2011, the balance outstanding under the recourse contracts was $287,745 net of a hold

back reserve of $66,510 (December 31, 2010, $188,710 net of a hold back reserve of $32,879). 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:

	September 30, 2011	December 31, 2010
Fixed Assets		
Cost	$ 350,429	$ 347,139
Less:		
Accumulated Depreciation	(329,530)	(307,028)
Total	$ 20,899	$ 40,111

Depreciation expense totaled $7,425 and $7,652, respectively, for the three months ended September 30, 2011 and 2010, and $22,502 and $22,957, respectively, for the nine months ended September 30, 2011 and 2010.

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities, consisted of the following:

	September 30, 2011	December 31, 2010
ACCOUNTS PAYABLE		
Trade Vendors	$1,459,294	$1,281,280
Professional Advisors	2,874,901	3,140,913
Total Accounts Payable	$4,334,195	$4,422,193
ACCRUED LIABILITIES		
Accrued salaries and wages	1,287,980	1,257,980
Judgment interest	328,303	328,303
Other	591,477	427,963
Total Accrued Liabilities	2,207,760	2,014,246
TOTAL	$6,541,955	$6,436,439

NOTE 8 DEBT

	September 30, 2011	December 31, 2010
NOTES PAYABLE - ARRAYIT DIAGNOSTICS, INC.		
Notes payable, interest at 10%, which was due January 22, 2011 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. The terms also called for the issuance of 300,000 warrants issuable for shares of common stock at $0.22 per share. The annual effective interest rate for this loan is estimated to be 243.8%	$ 66,371	$ 65,000
LESS: Unamortized loan fee and discount in connection with the obtaining of the loan	-	(8,916)
	66,371	56,084
Notes payable, interest at 10%, which was due August 10, 2010 and is now past due, secured by 200,000 shares out of the Company's common stock, pledged to the private lender without compensation as follows: 100,000 common shares provided by the Company's chief financial officer; 50,000 common shares provided without compensation by a minority shareholder in Arrayit Diagnostics; and a call option call to acquire an additional 50,000 common shares currently held by a minority shareholder in Arrayit Diagnostics.	53,640	50,000
	$ 120,011	$ 106,084
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. 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	200,000	200,000

shares of common stock at $1.00 per share. The annual effective interest rate for this loan is estimated to be 239.2%		
Notes payable to Wells Fargo, payable in 60 monthly installments of $8,572 including interest at bearing interest at Prime plus 2.75%, 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.	-	173,706
Notes payable, interest at 8%, unsecured due on demand from Arrayit creditors	37,411	39,293
Notes payable, interest at rates varying from 8% to 10%, unsecured due on demand from the former TeleChem shareholders and their families.	784,652	707,001
	1,022,063	1,120,000
Notes payable including related parties	$ 1,142,074	$ 1,226,084
Short Term Debt	$ 1,142,074	$ 1,139,765
Long Term Debt	-	86,319
Notes payable including related parties	$ 1,142,074	$ 1,226,084

NOTE 9 WARRANTS AND OPTIONS

Warrants

On January 19, 2008, the Company issued 1,250,000 warrants, expiring on January 19, 2013, exercisable at $0.01.

On October 1, 2009, the Company issued 450,000 stock purchase warrants, expiring on October 1, 2014, exercisable at $0.32 to the President of Arrayit Diagnostics.

On April 25, 2010, the Company issued 150,000 share purchase warrants, expiring on April 25, 2012, exercisable at $1.00 for consulting services.

On May 12, 2010 the Company issued 200,000 share purchase warrants, expiring on May 12, 2012 exercisable at $1.00 in connection with a debt financing.

On September 30, 2010 the Company issued 200,000 share purchase warrants expiring on October 1, 2014 exercisable at $0.20 to the President of Arrayit Diagnostics.

On October 14, 2010 the Company issued 300,000 share purchase warrants expiring on February 15, 2013 exercisable at $0.22 in connection with a debt financing. During 2010, 200,000 warrants were cancelled.

Options

On October 1, 2009, the Company granted 450,000 options to the President of Arrayit Diagnostics, Inc. at an exercise price of $0.32. The $189,000 intrinsic value of these options was recorded as an expense on that date.

On June 30, 2010, 160,000 share purchase options were exercised upon payment of $51,200.

The following table summarizes options and warrants outstanding at September 30, 2011:

	Number of Options and Warrants	**Weighted Average Exercise Price Per Share**
Outstanding at December 31, 2010	2,190,000	$0.23
Granted	0	0

Cancelled/forfeited	0	0
Expired	0	0
Exercised	0	0
Outstanding at September 30, 2011	2,190,000	$0.23

NOTE 10 ROYALTY OBLIGATIONS

(a)

Advisory Agreement

Under paragraph 2 (b) of an advisory agreement dated August 11, 2009 between Arrayit Diagnostics, Inc. and a limited liability partnership, controlled by parties that are also shareholders in Arrayit Corporation, there is a contractual obligation to pay a Royalty of Twenty percent (20%) of the net sales of Arrayit Diagnostics, Inc., and its subsidiaries, which includes the Company. Net Sales means the gross selling price by the Company and sub-licensees for the sale of any product or products, less trade discounts allowed, credits for claims or allowances, commissions, refunds, returns and recalls.

The term of the advisory agreement is five years. The royalties and ownership provisions are in perpetuity.

The entitlement to royalties under the advisory agreement is decreased by obligation to pay royalties to other advisors and investors. With respect to the revenue generated by Arrayit Diagnostics, Inc. as described in (b) below the Company is obligated to pay a 0.95% royalty to purchasers of royalty interests, thereby reducing the Company s obligation to the advisor by a similar amount, resulting in a net royalty obligation to the advisor of 19.05% on revenue generated by our Ovarian subsidiary.

During the period ended September 30, 2011, there were no revenues earned and hence no obligation to pay any royalties.

(b) Royalty Interests ARRAYIT DIAGNOSTICS, INC.

Third party investors purchased royalty interests in the amount of $285,000 in Arrayit Diagnostics (Ovarian), Inc., in return for a zero decimal nine five percent (0.95%) royalty on net sales of the Ovarian test. Amounts received with respect to these royalty interests are shown as Non-Controlling Interests on the Balance Sheet, as there are no terms of repayment of the royalty interests. On May 23, 2011, Arrayit Diagnostics, Inc. acquired the outstanding 20% non-controlling interest in Ovarian, recognizing no gain or loss on the transaction. Ovarian was then collapsed into Diagnostics, which continues to be an 80% subsidiary of the company. The 0.95% royalty interests on net sales of the Ovarian test owned by third party investors were not affected and remain in place.

During the period ended September 30, 2011, there were no revenues earned and hence no obligation to pay any royalties.

(c) Wayne State University ARRAYIT DIAGNOSTICS, INC.

Under terms of a biomarker license agreement between Wayne State University and the Company, effective December 7, 2009 the Company is obligated to pay the University royalties of 5% of net sales. In addition the license agreement provides for lump sum payments to be made as milestone events are achieved.

There were no revenues generated during the fiscal period ended September 30, 2011, and hence no obligation to pay any amounts to Wayne State University.

(d) The Parkinson s Institute ARRAYIT SCIENTIFIC SOLUTIONS, INC. (formerly Arrayit Diagnostics (Parkinson), 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 September 30, 2011 and hence no obligation to pay any amounts 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 period ended September 30, 2011 and 2010 include $90,500 and $40,005 of stock-based compensation, arising from the granting of 435,000 and 80,010 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 as part of the merger with IMHI. 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 nine months ended September 30, 2011, 628 Series C Preferred Stock shares were converted into 220,010 shares of common stock.

NOTE 13- STOCKHOLDERS' EQUITY

The following table summarizes changes in stockholders' equity during the quarter ended September 30, 2011:

	TOTAL ARRAYIT CORPORATION STOCKHOLDERS' EQUI						
	Preferred Series A		Preferred Series C		Common Stock		Additional Paid In
Description	Number	Dollar	Number	Dollar	Number	Dollar	Capital
Balance, December 31, 2010	22,034	$ 22	91,887	$ 92	$25,9	$2	$ 16,3
Convert Preferred C to Common			(628)		220,0	2	
Issuance of shares for services					731,0	1	1
Net Loss for the nine months ended September 30, 2011						$	
Balance, September 30, 2011	22,034	$ 22	91,259	$ 92	26,9	2	$ 16,5

NOTE 14 INCOME TAXES

At December 31, 2010 and September 30, 2011, the Company had net operating loss (NOL) carry-forwards available to offset future taxable income of approximately $24 million including approximately $17.5 million from IMHI 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 of approximately $9.5 million has been recorded against the deferred tax asset for as of December 31, 2010 and September 30, 2011 due to the uncertainty surrounding its realization caused by the Company s recurring losses. There was no change in the valuation allowance during the quarter ended September 30, 2011. The NOL carry-forwards will fully expire in 2031.

NOTE 15 - 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.

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. On August 11, 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 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. Oral argument in the appeal was heard on December 15, 2009 by a panel of three judges in the Third Circuit Court of Appeals in Philadelphia, PA.

On April 20, 2010, the Third Circuit Court of Appeals rendered its judgment on that appeal that the Judgment entered August 16, 2007 is reversed in part, with respect to the judgment in favor of TeleChem on its counterclaim of misrepresentation and the award of damages. The Appeal Court ordered a new trial on TeleChem s counterclaim for fraudulent misrepresentation and damages. The judgments on all other claims were affirmed.

On October 27, 2011, Arrayit Corporation announced that the litigation between its wholly owned subsidiary, TeleChem International, Inc., and Pediatrix Screening, Inc. *et al.* was settled without financial penalty to either party.

Long Term Lease Commitments

The Company leases its office facility in Sunnyvale, California under operating leases that expire November 30, 2012.

Future minimum lease payments as of September 30, 2011 are as follows:

YEAR ENDING	
2011	44,960
2012	170,320
	$ 215,280

Rent expense was $44,960 and $43,470 for the three months ended September 30, 2011 and 2010, respectively. Rent expense was $134,880 and $133,308 for the nine months ended September 30, 2011 and 2010 respectively.

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 three and nine months ended September 30, 2011, 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 for the year ended December 31, 2010. 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 for the year ended December 31, 2010 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.

Company Overview

Arrayit began as a division of TeleChem International, Inc. in 1996 with the advent of Dr. Mark Schena s visionary introduction 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 advanced at a dramatic pace in the 1990s as more sophisticated 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 human genome, led to yet another revolution in genetic discovery: research in gene function and gene variation with regard to disease states and diagnostics. Microarray tools, having undergone FDA-validation in the 2000s, remain an important component of the new genomics and proteomics industry upon which Arrayit will continue to capitalize. The Company believes that non-invasive, pre-symptomatic diagnostic tests from a single droplet of blood for cancer (e.g. ovarian cancer), neurodegenerative disease (e.g. Parkinson s Disease), and other clinical disorders, as well as personalized, companion diagnostic tests for specific medications, food allergies, and other factors impacting human health and lifestyle represent a large growth opportunity in the consumer markets.

Arrayit Products, Services and Diagnostics

In the late 1990s, Arrayit focused on developing a large suite of life sciences products including microarray instruments, tools, kits, and reagents using an open platform strategy in order to establish a market presence. 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 this flexibility and continue to buy Arrayit products because of their quality, affordability, and ease-of-use. Arrayit s patented printing technology has become an industry standard for microarray manufacturing with more than 3,900 installations worldwide since 1997. Arrayit s revenues from the patented printing technology and supporting instrumentation illustrate the Company s success at meeting the unmet needs of the microarray industry. Arrayit has pioneered personalized instrumentation for the microarray industry through its introduction of small-scale SpotBot® Microarrayers in 2000. To date, the company has sold more than 350 SpotBot® Personal Microarrayers. Building on the SpotBot® legacy, Arrayit has more recently introduced medium scale microarray robots (SpotBot® Extreme) and high throughput versions (NanoPrint™). The SpotBot® and NanoPrint™

product lines have been further advanced to accommodate more stringent requirements in protein microarray manufacturing, as well as microarrays of other biomolecules. As the industry grows, Arrayit is expanding its product line to include integrated platforms and pre-printed microarrays with specific nucleic acid and protein content. The Company currently offers an extensive line of more than 900 life sciences products and services.

Arrayit is expanding its Microarray Services capabilities, in connection with increased demand for microarrays of all kinds, and a trend toward outsourcing high end technical manufacturing. The Company continues to provide contract clean room microarray manufacturing services to leading academic, government and commercial organizations including biotechnology, pharmaceutical and diagnostics companies. Arrayit intends to create a variety of microarray-based diagnostic tests using Arrayit s patented healthcare technology, the Variation Identification Platform (VIP). The Company s patented VIP technology allows as many as 260,000 individual patient DNA samples to be tested on a single VIP microarray, allowing the detection of single nucleotide polymorphism (SNP) variants in a rapid, economical, automated and highly accurate manner. The Company believes that VIP represents the most

cost-effective methods for targeted genotyping of the population. As microarrays move into genetic screening and clinical diagnostics applications, the Company expects to earn license and royalty fees in the area of VIP testing.

Arrayit continues to leverage its proprietary and patented microarray platform in key diagnostics areas including oncology. The Company has made significant progress in advancing its OvaDx® Pre-Symptomatic Screening Test for Ovarian Cancer. In the first quarter of 2011, Arrayit introduced an on-line Ovarian Cancer Forum (http://arrayit.com/Microarray_Diagnostics/Ovarian_Cancer_Forum/ovarian_cancer_forum.html) to inform the public about the challenges of the disease, risk factors, symptoms, and the importance of early detection. The Company finalized the molecular markers for OvaDx® RUO, the research-use-only version of OvaDx®.

Arrayit has been a life sciences microarray technology market driver since 1997. A complete list products and services with descriptions, scientific publications, protocols and pricing is available on-line at www.arrayit.com. The Company s products and services can also be purchased on a 24-hour a day basis electronically using the company store at shop.arrayit.com.

Arrayit s principal office is in Sunnyvale, California. The Company presently has ten full-time employees.

Corporate History

On February 5, 2008, Integrated Media Holdings, Inc. (IMHI), a Delaware corporation, 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 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 was accounted for as a reverse merger, where

Telechem is the accounting acquirer resulting in a recapitalization of our equity.

Effective 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 reincorporation was effected by the merger of IMHI, with and into its wholly owned subsidiary. Arrayit Corporation is the surviving entity.

On the Effective Time, each of IMHI s common stockholders was 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 ceased its corporate existence in the State of Delaware. The shares of the Company ceased trading on the first trading date following the Effective Time and shares of Arrayit began trading in their place but under a new CUSIP number and trading symbol.

One June 2, 2009, we incorporated Arrayit Diagnostics, Inc. (Diagnostics) to develop medical tests and through its partially owned subsidiaries, market these tests to the medical community, incorporating the technology and equipment developed by Arrayit Corporation. On June 16, 2009, Diagnostics incorporated Arrayit Diagnostics (Ovarian), Inc. to market a test for Ovarian Cancer, incorporating the technology and equipment developed by Arrayit Corporation, and on October 15, 2009, Diagnostics incorporated Arrayit Diagnostics (Parkinson), Inc. (Parkinson) to market a test for Parkinson s Disease, incorporating our technology and equipment.

On May 23, 2011, Diagnostics acquired the then outstanding 20% non-controlling interest in Ovarian, recognizing no gain or loss on the transaction. Ovarian was then collapsed into Diagnostics, which continues to be an 80% subsidiary of the Company. Also on May 23, 2011, Diagnostics acquired the outstanding 20% non-controlling interest in Parkinson, also recognizing no gain or loss on the transaction, and distributed the now 100% owned subsidiary directly to Arrayit Corporation. As part of the exchange, Parkinson s name was changed to Arrayit Scientific Solutions, Inc.

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 exceed the research market, 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.

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 collectability 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, TeleChem ceased to be treated as an "S" Corporation for Income Tax purposes. Effective February 21, 2008, 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.

Results of Operations

Comparison of Operating Results Three and Nine Months Ended September 30, 2011 and 2010

Gross revenues for the three months ended September 30, 2011 and 2010 were $780,445 and $688,779, respectively, representing a 13% increase in gross revenues for the quarter. Gross revenues for the nine months ended September 30, 2011 and 2010 were $2,561,837 and $2,145,747, respectively, representing a 20% increase in gross revenues for the year to date.

The cost of sales for the three months ended September 30, 2011 and 2010 amounted to $451,065 and $263,942, respectively, resulting in gross profit for the three months ended September 30, 2011 and 2010 of $329,380 and $424,837, respectively. The cost of sales for the nine months ended September 30, 2011 and 2010 of $1,523,008 and $1,101,129, respectively, resulting in a gross profit or the nine months ended September 30, 2011 and 2010 of $1,038,829 and $1,044,618, respectively. The Company s cost of sales is dependent upon product mix. During the third quarter of 2011, the gross margin was 42% versus 62% for the third quarter of 2010. The Company sold more entry level microarray printers in the third quarter of 2011, which have a slightly lower gross margin percentage than the microarray scanners and high end microarray printers that sold in the comparable period for 2010.

Selling, general and administrative expenses for the three months ended September 30, 2011 and 2010 were $359,764 and $582,954, respectively. Selling, general and administrative expenses for the nine months ended September 30, 2011 and 2010 were $1,061,441 and $2,990,442, respectively. The majority of the decrease of $223,190 and $1,929,001 for the three and nine months ended September 30, 2011, respectively, is attributable to a reduction in legal expenses and salaries, offset by increases in freight cost, interest and promotional expenses.

Net loss from operations was $98,019 for the three months ended September 30, 2011, compared with a net loss from operations of $544,026 for the three months ended September 30, 2010. Net loss from operations was $260,836 for the nine months ended September 30, 2011, compared with a net loss from operations of $2,731,875 for the nine months ended September 30, 2010. The narrowing of loss is attributable to a reduction of sales, general and

administrative expenses, and research and development.

Legal expenses associated with the Pediatrix case accounted for most of the legal expenses of $23,621 for the three months ended September 30, 2011 and legal expenses of $106,036 for the three months ended September 30, 2010 were mostly related to fundraising. Legal expenses associated with the Pediatrix case accounted for most of the legal expense of $74,542 for the nine months ended September 30, 2011 and $232,884 for the nine months ended September 30, 2010 were mostly related to fundraising.

Interest expense was $40,587 for the three months ended September 30, 2011 compared to $137,153 for the three months ended September 30, 2010. Interest expense was $141,049 and $241,348 for the nine months ended September 30, 2011 and 2010, respectively. The interest costs for 2011 and 2010 include the amortized cost of debt arrangement fees and warrants issued in connection with financing. The increase in interest costs was the result of increased borrowing on our accounts receivable based line of credit.

Net loss attributable to the non-controlling interest in our Arrayit Diagnostics, Inc. subsidiary amounted to $10,124 for the three months ended September 30, 2011 and $69,920 for the three months ended September 30, 2010. Net loss attributable to the non-controlling interest in our Arrayit Diagnostics, Inc. subsidiary amounted to $37,880 for the nine months ended September 30, 2011 and $117,678 for the nine months ended September 30, 2010.

Liquidity and Capital Resources

Cash flows provided by operations was $134,163 for the nine months ended September 30, 2011. As of September 30, 2011, we had had a working capital deficiency of $8,035,863 and a stockholders deficit of $7,971,945. The working capital deficiency, in addition to amounts payable in the normal course of business, is primarily attributable to legal expenses, deferred compensation, and judgement 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 as much as approximately $1,200,000 over the next twelve (12) months to meet our expenses and to continue to prefect our proprietary microarray technology. We may require additional funds over the next eighteen (18) months to assist in realizing our business objectives. The amount of 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 form family members 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.

Source of Liquidity

During the three months ended September 30, 2011, the Company relied upon extended terms from its creditors to finance its loss from operations.

Off-Balance Sheet Arrangements

We currently do not have any 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.

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.

(b) Changes in internal control over financial reporting

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

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. On August 11, 2007, the jury awarded TeleChem $5,000,000 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 put $5,000,000 in bond, and submitted an appeal to the Third Circuit Court of Appeals to request that the damages award to TeleChem be reduced. Oral argument in the appeal was heard on December 15, 2009 by a panel of three judges in the Third Circuit Court of Appeals in Philadelphia, PA.

On April 20, 2010, the Third Circuit Court of Appeals rendered its judgment on that appeal that the Judgment entered August 16, 2007 is reversed in part, with respect to the judgment in favor of TeleChem on its counterclaim of misrepresentation and the award of damages. The Appeals Court ordered a new trial on TeleChem s counterclaim for fraudulent misrepresentation and damages. The judgments on all other claims were affirmed.

On October 27, 2011, Arrayit Corporation announced that the litigation between its wholly owned subsidiary, TeleChem International, Inc., and Pediatrix Screening, Inc. *et al.* was settled without financial penalty to either party.

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

On August 29, 2011, we issued 425,000 unregistered common shares for services rendered. The Company relied upon the exemption under Section 4(2) of the Securities Act.

On September 16, 2011, we issued 10,000 unregistered common shares for services rendered. The Company relied upon the exemption under Section 4(2) of the Securities Act.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4 REMOVED AND RESERVED

NONE

ITEM 5 OTHER INFORMATION

NONE

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: November 18, 2011

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

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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

November 18, 2011

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

Principal Accounting Officer

November 18, 2011

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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 September 30, 2011 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

November 18, 2011

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 September 30, 2011 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

Principal Accounting Officer

November 18, 2011