HEALTH DISCOVERY CORP
Form 10-Q
August 16, 2010

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

FORM 10-Q

x Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2010

o Transition report under Section 13 or 15(d) of the Exchange Act

For the transaction period from _____________ to _____________

Commission file number 333-62216

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

Georgia	74-3002154
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2 East Bryan Street, Suite #601
Savannah, Georgia 31401
(Address of principal executive offices)

912-443-1987
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since the last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 the filing requirements for at least the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer o	Non-Accelerated Filer o (do not check if a smaller reporting company)
Accelerated Filer o	Smaller Reporting Company x

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class:	Outstanding as of August 13, 2010
Common Stock, no par value	217,598,486
Series A Preferred Stock	0
Series B Preferred Stock	19,402,675

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

HEALTH DISCOVERY CORPORATION
Balance Sheet

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current Assets		
Cash	$2,464,146	2,328,912
Certificates of Deposit	2,001,964	622,358
Accounts Receivable	199,832	112,500
Prepaid Expenses and Other Assets	112,618	15,569
Total Current Assets	4,778,560	3,079,339
Equipment, Less Accumulated Depreciation of $23,289 and $19,251	25,793	24,667
Other Assets		
Deferred Charges	55,228	10,336
Patents, Less Accumulated Amortization of $1,599,772 and $1,468,412	2,386,022	2,517,382
Total Assets	$7,245,603	5,631,724
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts Payable – Trade	$639,745	570,837
Accrued Liabilities	268,144	214,122
Accrued Settlement Charges (Note G)	1,877,647	-
Dividends Payable	5,880	-
Deferred Revenue	114,035	39,375
Total Current Liabilities	2,905,451	824,334
Long Term Liabilities		
Deferred Revenue	888,880	504,560
Dividends Payable	116,995	14,993
Total Liabilities	3,911,326	1,343,887
Commitments and Contingencies (Note H)		
Stockholders' Equity		
Series B Preferred Stock, Convertible, 20,625,000 Shares Authorized, 19,402,675 Issued and Outstanding	1,490,015	1,490,015

Common Stock, No Par Value, 300,000,000 Shares Authorized 210,723,486 Shares Issued and Outstanding June 30, 2010 and 194,462,847 Shares Issued and Outstanding December 31, 2009	21,722,040	18,807,239
Accumulated Deficit	(19,877,778)	(16,009,417)
Total Stockholders' Equity	3,334,277	4,287,837
Total Liabilities and Stockholders' Equity	$7,245,603	5,631,724

See accompanying notes to financial statements.

HEALTH DISCOVERY CORPORATION

Statements of Operations
(unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues:				
Licensing & Development	$ 153,506	$ 16,215	$ 207,684	$ 32,905
Operating Expenses:				
Amortization	65,680	65,680	131,360	131,360
Professional and Consulting Fees	207,776	76,268	329,565	248,663
Legal Fees	249,315	79,832	427,648	185,162
Research & Development Fees	142,900	8,975	192,960	11,968
Compensation	302,690	270,416	700,177	438,306
Other General and Administrative Expenses	168,825	66,656	426,694	127,843
Total Operating Expenses	1,137,186	567,827	2,208,404	1,143,302
Loss From Operations	(983,680)	(551,612)	(2,000,720)	(1,110,397)
Other Income (Expense)				
Interest Income	5,959	772	10,165	2,413
Settlement Charges (Note G)	(1,877,647)	-	(1,877,647)	-
Interest Expense	-	(48)	(159)	(362)
Total Other Income (Expense)	(1,871,688)	724	(1,867,641)	2,051
Net Loss	$ (2,855,368)	$ (550,888)	$ (3,868,361)	$ (1,108,346)
Preferred stock dividends	67,308	-	207,046	-
Loss attributable to common shareholders	$ (2,922,676)	$ (550,888)	$ (4,075,407)	$ (1,108,346)
Weighted Average Outstanding Shares	210,723,486	169,522,590	204,335,205	169,522,590
Loss Per Share (basic and diluted)	$ (.01)	$ (.00)	$ (.02)	$ (.01)

See accompanying notes to financial statements

HEALTH DISCOVERY CORPORATION
Statements of Cash Flows
(unaudited)
For the Six Months Ended June 30, 2010 and 2009

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash Flows From Operating Activities		
Net Loss	$ (3,868,361)	$ (1,108,346)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Stock-based Compensation	13,876	144.536
Services Exchanged for Warrants	68,449	83,445
Increase in Deferred Charges	(44,892)	(25,770)
Depreciation and Amortization	135,398	134,227
Increase in Accounts Receivable	(86,482)	—
Increase in Accounts Recoverable Development Costs	(13,388)	(100,000)
Decrease in Interest Receivable	34	235
Increase in Deferred Revenue	458,980	117,095
(Increase) Decrease in Prepaid Expenses and Other Assets	(84,544)	6,381
Increase in Accounts Payable – Trade	68,908	328,913
Increase (Decrease) in Accrued Liabilities (Note G)	1,931,668	(37,189)
Net Cash Used by Operating Activities	(1,420,354)	(456,473)
Cash Flows From Investing Activities:		
Purchase of Certificates of Deposit	(1,379,606)	-
Purchase of Equipment	(5,164)	(2,465)
Net Cash Used by Investing Activities	(1,384,770)	(2,465)
Cash Flows From Financing Activities:		
Proceeds from Sales of Preferred B Stock	-	250,000
Proceeds from the Exercise of Warrants	3,039,522	-
Proceeds from borrowing	-	500,000
Dividends Paid	(99,164)	-
Net Cash Provided by Financing Activities	2,940,358	750,000
Net Increase in Cash	135,234	291,062
Cash, at Beginning of Period	2,328,912	325,887
Cash, at End of Period	$ 2,464,146	$ 616,949
Supplemental disclosures of cash flow information:		
Cash Paid for Interest	$ 159	$ 362

See accompanying notes to financial statements.

3

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements

Note A - BASIS OF PRESENTATION

Health Discovery Corporation (the "Company") is a molecular diagnostics company that has acquired certain patents and has patent pending applications for certain machine learning tools used for diagnostic and drug discovery. The Company licenses the use of its patent protected technology and utilizes such technology internally to develop diagnostic tests, prognostic tests, drug monitoring tests and drug targets for therapeutic use, and sells or licenses such discoveries to diagnostic or pharmaceutical companies worldwide.

The accounting principles followed by the Company and the methods of applying these principles conform with accounting principles generally accepted in the United States of America (GAAP). In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates.

The interim financial statements included in this report are unaudited but reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and six month periods ended June 30, 2010 are not necessarily indicative of the results of a full year's operations and should be read in conjunction with the financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

Recent Accounting Pronouncements

ASC Topic 105 incorporates the July 2009, FASB issuance of SFAS No. 168, Codification and the Hierarchy of Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification (the "Codification" or "ASC") and supersedes all existing accounting standards as the single source of authoritative non-governmental U.S. GAAP. All other accounting literature not included in the Codification is considered non-authoritative, except for additional authoritative rules and interpretive releases of the SEC and applicable only to SEC registrants. The Codification is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This statement applied beginning in the third quarter 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

In June 2009, the FASB issued ASC 810, Consolidations, to improve financial reporting by enterprises involved with variable interest entities by addressing (1) the elimination of the qualifying special-purpose entity concept and (2) constituent concerns about the application of accounting and disclosures which do not provide timely and useful information about an enterprise's involvement in a variable interest entity. The Company adopted this statement on January 1, 2010 and the adoption of this standard did not have a material effect on our financial position or results of operations.

In August 2009, the FASB issued ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value. This update provides clarification for the fair value measurement of liabilities in circumstances in which a quoted price in an active market for an identical liability is not available. ASU also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update is effective for interim periods beginning after August 28, 2009. The adoption of this standard did not have a material effect on our financial position or results of operations.

4

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

Note B – REVENUE RECOGNITION

Revenue is generated through the sale or license of patented technology and processes and from services provided through development agreements. These arrangements are controlled by contracts that dictate responsibilities and payment terms. The Company recognizes revenues as earned over the duration of a license agreement or upon the sale of any owned patent once all contractual obligations have been fulfilled. Revenue is earned under development agreements in the period the services are performed.

During the first quarter the Company signed a License Agreement which required an initial payment to the Company from Quest of $500,000. The Company recognized deferred revenue in connection with such licensing agreement of $500,000 which will be recognized as income over the approximate 9 year weighted average remaining term of the patents subject to the License Agreement.

In addition, during the first quarter the Company signed a Development Agreement with Quest. The Development Agreement, in the amount of $375,000 requires the Company to perform services to assist Quest in developing and obtaining regulatory approval for certain products. Revenue of $166,664 has been recorded as of June 30, 2010 for the Development Agreement and $208,336 is expected to be recognized as income over the remaining estimated development period of 5 months.

The Company treats the incremental direct cost of revenue arrangements, which consists principally of employee bonuses, as deferred charges and these incremental direct costs are amortized to expense using the straight-line method over the same term as the related deferred revenue recognition.

Deferred revenue represents the unearned portion of payments received in advance for licensing and development agreements. The Company had total unearned revenue of $1,002,915 as of June 30, 2010. Unearned revenue of $114,035 is recorded as current and $888,880 is classified as long-term.

Note C - NET LOSS PER SHARE

Basic Earnings Per Share (“EPS”) includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. Due to the net loss in all periods presented, the calculation of diluted per share amounts would create an anti-dilutive result and therefore is not presented.

Note D - STOCK-BASED COMPENSATION AND OTHER EQUITY BASED PAYMENTS

Stock-based expense included in our net loss for the three months and six months ended June 30, 2010 consisted of $56,274 and $111,074 respectively for stock options granted to executives and directors. Stock-based expense included in our net loss for the three months and six months ended June 30, 2009 was $126,955 and $223,481 respectively.

As of June 30, 2010 and June 30, 2009 there was $279,842 and $315,868, respectively, of unrecognized cost related to stock option and warrant grants. The cost is to be recognized over the remaining vesting periods with a weighted average of approximately 2.6 years.

One of our directors resigned during the first quarter of 2010 due to other work commitments. As a result of his resignation, he forfeited options to acquire 750,000 shares of common stock at $0.08 because the vesting provisions were not satisfied.

A new outside director has been appointed to replace the director who resigned. In connection with this appointment to the Company's Board of Directors, the Company granted the new director an option to purchase 1,500,000 shares of the Company's common stock. The options vest 250,000 shares every six months, have an exercise price of $0.26, and expire on February 24, 2015. The fair value of each option granted was $0.205 and was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: dividend yield at 0%, risk-free interest

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

Note D - STOCK-BASED COMPENSATION AND OTHER EQUITY BASED PAYMENTS, continued

rate of 2.73%, an expected life of 5 years, and volatility of 1.0816%. The aggregate computed value of these options was $307,469, and this amount will be charged as expense over the three year vesting period.

As a part of the employment agreement with Dr. Stephen Barnhill for his employment as Chief Executive Officer, Dr. Barnhill was granted an option to purchase an aggregate of 6,000,000 shares of the Company's common stock at an exercise price of $0.08. The options vest over a two year period. The Company must attain certain performance metrics for a portion of the options to vest. Due to the performance metrics not being met for a portion of the options, 1,000,000 shares will not vest. As a result, the Company recognized a reduction of stock compensation expense of $28,748 for the cost of those non vesting options. The remaining 5,000,000 have vested according to the terms of the employment agreement.

No options or warrants were issued during the second quarter of 2010.

The following schedule summarizes combined stock option and warrant information for the six months ended June 30, 2010 and the twelve months ended December 31, 2009:

	Option and Warrant Shares	Weighted Average Exercise Price
2009		
Outstanding, January 1, 2009	128,777,644	$ 0.16
Granted	5,000,000	$ 0.08
Exercised	(17,503,073)	$ 0.14
Expired un-exercised	(15,659,394)	$ 0.15
Outstanding, December 31, 2009	100,615,177	$ 0.16
2010		
Granted	1,500,000	$ 0.26
Exercised	(16,260,642)	$ 0.19
Expired un-exercised	(3,751,828)	$ 0.17
Outstanding, June 30, 2010	82,102,707	$ 0.15

The following schedule summarizes combined stock option and warrant information as of June 30, 2010

Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Remaining Contractual Life (years) of Exercisable Warrants and Options

$0.08	13,550,000	7.4	8,300,000	6.9
$0.13	2,500,000	1.6	2,500,000	1.6
$0.14	31,276,357	0.25	31,276,357	0.25
$0.19	33,276,350	0.25	33,276,350	0.25
$0.26	1,500,000	4.7	-	-
Total	82,102,707		75,352,707	

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

The weighted average remaining life of all outstanding warrants and options at June 30, 2010 is 1.2 years. (See Note H - Commitments for disclosure of a declaratory judgment action filed by a shareholder relating to the expiration date for certain warrants held by such shareholder.) As of June 30, 2010, the aggregate net intrinsic value of all options and warrants outstanding is $636,237.

Note E - PATENTS

The Company has acquired and developed a group of patents related to biotechnology and certain machine learning tools used for diagnostic and drug discovery. Legal costs associated with patent acquisitions and the application processes for new patents are also capitalized as patent assets. The Company has recorded as other assets $2,386,022 in patents and patent related costs, net of $1,599,772 in accumulated amortization, at June 30, 2010.

Amortization charged to operations for the three months and six months ended June 30, 2010 and 2009 were $65,680 and $131,360 respectively in both years. Estimated amortization expense for the next five years is $262,720 per year.

Note F – STOCKHOLDERS' EQUITY

In connection with the 2007 private placement, the Company issued warrants to purchase 51,538,822 shares of restricted common stock at an exercise price of $0.19 (the "Tranche 2 Warrants"). Pursuant to the terms of the Tranche 2 Warrants, certain of the holders were obligated to exercise fifty percent of the Tranche 2 Warrants if the average of the last reported closing bid and asked prices on such day on the Over-the-Counter Bulletin Board for the Company's common stock was $0.24 for a period of thirty consecutive calendar days, which occurred on February 28, 2010, or forfeit the right to acquire those shares. The Company exercised its call rights relating to certain of the Tranche 2 Warrants during the first quarter. As a result, the holders of the Tranche 2 Warrants who received the Company's call notice were obligated to purchase 14,731,217 shares of restricted common stock or forfeit an equal number of Tranche 2 Warrant shares. The number of shares of common stock purchased relating to the call notice was 11,729,390 and 3,001,827 Warrants were forfeited. The Company has received $2,228,584 in gross proceeds from the purchase of the common stock related to the call provision.

Warrants exercised in the first quarter of 2010 that were exercised independent of the Tranche 2 Warrant call totaled 4,531,250 warrant shares with proceeds to the Company of $810,938.

No warrants or options were exercised during the second quarter of 2010.

There are Tranche 1 Warrants to purchase 31,276,358 shares at $0.14 and Tranche 2 Warrants to purchase 33,276,349 shares at $0.19 outstanding at June 30, 2010. These 64,552,707 warrants are due to expire September 7, 2010. See Commitments and Contingencies (Note H)

In connection with our Series B Preferred stock, we are required to pay dividends which accrue on a cumulative 10% basis. Such dividends are payable at the Company's option in cash or common stock and the dividends will be accrued until paid at the Company's option or when the shares are redeemed. As there is no requirement to pay such dividends in the upcoming year and it is not the intention of the Company to do so, the dividends payable of $116,995 are reflected as a long term liability in the accompanying balance sheet. In addition, the Company is required to pay a special dividend to the Preferred B shareholders equal to 15% of net revenues for contracts signed after the issuance of the Series B stock. The Company paid $99,164 in dividends related to this requirement in the second quarter of 2010 as a result of revenue contracts signed in 2010. Additionally $5,880 is recorded as currently payable.

Note G – SUBSEQUENT EVENTS

On July 1, 2010 the Company signed a four year lease to accommodate its central administrative office. The initial terms are $4,100 per month plus 3% annual increases for the duration of the lease. The Company will continue to operate in its current location until the new premises is suitable for occupancy, estimated to be October 2010.

7

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

On July 13, 2010, the Company notified R. Scott Tobin, the Company's President and General Counsel and Principal Financial Officer, that it would not renew his employment agreement when the current term of his employment agreement expires on October 15, 2010. On August 2, 2010, the Company received a letter from counsel to Mr. Tobin asserting, among other matters, (i) that the non-renewal notice is ineffective and that Mr. Tobin's employment agreement remains in effect through October 15, 2011, and (ii) that Mr. Tobin would be entitled to damages if his employment is involuntarily terminated prior to October 15, 2011. The Company believes that these contentions are without merit and intends to defend vigorously any claims asserted by Mr. Tobin.

As of August 9, 2010, the Company and Mr. Tobin have agreed that Mr. Tobin will not be performing his duties for the Company. Thomas L. Gallagher, the Company's Executive Vice President, Global IP Strategies, will perform Mr. Tobin's duties.

As previously disclosed, the Company has received numerous letters from the lead purchaser (the "Investor") in the Company's 2007 private placement ("2007 Private Placement"), claiming, among other things, (a) that rights to receive up to 146,664,375 additional shares of the Company's common stock for no additional consideration have been triggered by certain actions of the Company, (b) breaches of its contractual rights to approve certain issuances of options and warrants, (c) breaches of other covenants made by the Company in the 2007 Private Placement, (d) the Company had violated its SEC disclosure obligations, and (e) various breaches by the members of the Board of Directors of their fiduciary duties.

The Company denied the Investor's claims and allegations. However, due to the expense, distraction and uncertainty of potential litigation regarding the claims, the Company negotiated a settlement with the Investor, effective July 27, 2010. Pursuant to the settlement agreement, the Company agreed, among other things, to (a) pay $145,625 to cover certain expenses of the Investor, (b) credit $1,134,375 to cover the aggregate exercise price of warrants to purchase 6,875,000 shares of the Company's common stock held by the Investor, (c) issue to the Investor a new two year warrant to purchase an additional 6,875,000 shares of common stock at an exercise price of $0.17 per share, and (d) file a registration statement covering the resale of the shares of common stock underlying the new warrant. In exchange, the Investor agreed, among other things, to (a) release the Company and certain related persons from all claims through the date of the settlement (including the claims relating to the 2007 Private Placement), (b) waive all future rights under the 2007 Private Placement agreements, and (c) standstill from certain actions related to the Company and its equity securities for a period of five years from the date of settlement. Neither the Company nor the Investor admitted liability or wrongdoing in connection with the settlement.

The Company has recognized a charge of $1,877,647 related to the settlement, including $597,647 in non-cash charges related to the issuance of the new warrants. Each of the 6,875,000 warrants has an exercise price of $0.17 (market price of the Company's stock on the date of the settlement) and expires on July 26, 2012. The fair value of each warrant was $0.087 and was estimated on the date of settlement using the Black-Scholes pricing model with the following assumptions: dividend yield at 0%, risk-free interest rate of .65%, an expected life of 2 years, and volatility of 1.3298%.

Note H – COMMITMENTS

The Company is subject to various claims primarily arising in the normal course of business. Although the outcome of these matters cannot be determined, the Company does not believe it is probable that any such claims will result in material costs and expenses.

On May 6, 2010, William F. Quirk, Jr., a shareholder of the Company, filed a declaratory judgment action in Georgia state court. In the filing, Mr. Quirk contends that, because Mr. Quirk is a 10% shareholder of the Company, the expiration date for certain warrants issued to him is September 7, 2012 rather than September 7, 2010.

The warrants in question were issued to Mr. Quirk in September 2007 in the Company's 2007 private placement transaction and consist of (i) a warrant to purchase up to 16,263,888 shares of HDC common stock at a price of $0.14 per share, and (ii) a warrant to purchase up to 16,263,888 shares of HDC common stock at a price of $0.19 per share. Although the stated expiration date for these warrants is September 7, 2010, Mr. Quirk contends that the expiration date for shareholders holding more than 10% of the Company's common stock is extended automatically by two years. Accordingly, Mr. Quirk is seeking a judicial declaration that he may exercise his warrants at any time prior to September 7, 2012. Mr. Quirk also is seeking award of his attorney's fees in connection with the action.

The Company is vigorously defending the action and has filed counterclaims against Mr. Quirk, including his breach of fiduciary duty.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Corporate Overview

Our Company is a molecular diagnostics company that uses advanced mathematical techniques to analyze large amounts of data to uncover patterns that might otherwise be undetectable. Our Company operates primarily in the emerging field of personalized medicine where such tools are critical to scientific discovery. Our primary business consists of licensing our intellectual property and working with prospective customers on the development of varied products that utilize pattern recognition tools. We also endeavor to develop our own product line of newly discovered biomarker-based diagnostic tests that include human genes and genetic variations, as well as gene, protein, and metabolite expression differences and image analysis. In drug discovery, biomarkers can help elicit disease targets and pathways and validate mechanisms of drug action. They may also be pharmacodynamic indicators of drug activity, response and toxicity for use in clinical development.

We intend to continue partnering with clinical laboratories to commercialize our clinical diagnostic tests and to provide pharmaceutical and diagnostic companies with all aspects of all phases of diagnostic and drug discovery, from expert assessment of the clinical dilemma to proper selection and procurement of high quality specimens. Through the application of our proprietary analytical evaluation methods and state-of-the-art computational analysis to derive relevant and accurate clinical data, we intend to identify accurate biomarker and pathway discoveries, resulting in patent protection of our biomarker discoveries for future development.

Our business is based on the belief that to discover the most clinically relevant biomarkers the computational component must begin at the inception of the clinical dilemma to be solved. This process includes several critical levels of decision-making - all of which are part of our business strategy. We intend to identify more relevant and predictable biomarkers for drug discovery so that new and better medicines and diagnostic markers can be developed for patients worldwide.

Operational Activities

The Company actively markets its technology and related developmental expertise to several prospects in the healthcare field, including some of the world's largest corporations in the pharmaceutical, biotech, and life sciences industries. Given the scope of some of these prospects, the sales cycle can be quite long, but management believes that these marketing efforts will produce favorable results.

During the first quarter, the Company, Smart Personalized Medicine, LLC and Quest Diagnostics Incorporated entered into a Development Agreement. The Company, SPM and Quest also entered into a related Licensing Agreement (the "Quest License"). In consideration for the license, Quest will separately make payments to the Company and SPM. Payments to the Company will include a $500,000 up front "Development License Fee," monthly "License Maintenance Fees" equal to $8,750 per month for the first year and $17,500 per month for each year thereafter. Quest will also pay, upon the publication of a study performed for the Validation Work, an Initial Product License Fee of $125,000 for each of the first two Products, and Royalty Payments equal to 2.45% of the net sales of each Licensed Product. The $500,000 upfront Development License Fee was received by the Company in April of 2010.

Effective March 11, 2010, the Company and SPM amended (the "Amendment") the original License Agreement, dated August 22, 2008 (the "SPM License Agreement"), pursuant to which we had licensed our intellectual property to SPM for use in the development of breast cancer products. As amended, we will receive all payments under the Quest Development Agreement and License Agreement directly from Quest, and SPM will not be required to make any additional payments to the Company related to either such agreement. With respect to SPM proceeds received unrelated to the arrangement with Quest, we will receive a per test royalty up to 7.5% based on net proceeds received from a Test (as defined in the SPM License Agreement) and such additional allocation and distribution of license fees and royalties received from future sublicenses with third parties as may be agreed. In addition, our equity percentage interest in SPM was increased from 15% to 20%, and such equity percentage interest may be diluted only to the same extent and in the same manner as each other initial equity percentage interest holder; provided, however, that when raising additional equity, SPM must obtain our prior written approval of the terms and conditions of such equity offering. SPM expects that once the laboratory test is developed with Quest, it can provide physicians and their patients a way to better determine the probability of relapse, allowing patients with good prognosis results an opportunity to avoid unnecessary expensive and traumatic chemotherapy treatments.

Pursuant to the Quest License, SPM granted a co-exclusive (with SPM) sublicense to utilize the Licensed Patent Rights to the extent necessary to enable Quest to develop Products and perform the Validation Work under the Quest Development Agreement. Quest has the right to use SPM's Breast Cancer Database developed in association with a world renowned academic cancer center (the "Database").

Pursuant to the Quest Development Agreement, we are required to use the support vector machine technology and other intellectual property licensed to SPM to analyze data for the development and/or validation of applications of clinical laboratory services, in -vitro diagnostic kits, clinical trial services and the other elements of "Field" (collectively, the "Products"). In consideration for our efforts under the Quest Development Agreement, Quest will pay us $375,000 (in addition to the $500,000 described above), which payments shall be made in equal monthly installments over nine months. The Company has subsequently received four of the nine installment payments of $41,666 each.

We continue our dialogue with several other important industry players in the healthcare field and, in certain situations, related to the field of molecular diagnostics, including proposed projects with some of the world's largest pharmaceutical and diagnostic companies, such as the potential development and commercialization of our colon cancer molecular diagnostic test with an international diagnostics company, and other prospective partnership opportunities with additional companies and research institutions. We also continue to pursue development opportunities with our existing licensing customers.

Please refer to the Company's 10-K filing as of December 31, 2009 for addition information regarding operational activities which are continuing to progress.

While we have a number of negotiations in process with potential licensing partners, there is a possibility that we will be unable to reach agreement with any party, that the negotiations continue but are not finalized in the near term, or that those that may be finalized do not provide the economic return that we expect.

The Company has recorded revenue of $1,823,927 from inception through June 30, 2010. This amount includes deferred revenue yet to be recognized of $1,002,915 shown as a liability on the balance sheet.

Recent Developments

The iPhone app for melanoma risk assessment continues to see progress. A beta version of the app for use in clinical settings has been completed and the Company is working on deployments with dermatologists for field testing. A more advanced version of the app with features and a user interface optimized for consumer use is currently in development.

The Company's relationship with the Pancreas, Liver and Biliary Center of New York (the "Pancreas Center") continues without interruption, irrespective of the fact that Saint Vincent Catholic Medical Centers located in New York City has opted to close its operations. The Pancreas Center has affiliated with Beth Israel Medical Center and is expected to affiliate with other hospitals in the New York City region in the near future.

On Monday May 10, 2010, the Company announced the appointment of Maher Albitar, M.D., a world-renowned cancer scientist and inventor, to the position of Chief Medical Officer. Until recently, Dr. Albitar was the Medical Director of Hematology and Oncology and Chief of Research and Development at Quest Diagnostics Nichols Institute San Juan Capistrano, Calif. Prior to Quest Diagnostics, Dr. Albitar was a tenured full professor at the M.D. Anderson Cancer Center and the University of Texas, where he served as chief of the hematopathology of the leukemia section with joint appointment in the clinical leukemia department.

Dr. Albitar invented Leumeta™ (Quest Trademark) plasma-based testing for cancer patients while at MD Anderson Cancer Center and Quest Diagnostics. Dr. Albitar also established and developed numerous new techniques in clinical laboratory testing.

Dr. Albitar is the principal inventor of more than 12 patents. He is the senior author or co-author of more than 250 peer-reviewed publications in major medical journals including the New England Journal of Medicine. In addition he has written numerous chapters and a book.

Dr. Albitar received the Physician Scientist Award from the U.S. National Institute of Health, the American Cancer Society Fellowship Award, and a Fellowship Award in Genetics from the Howard Hughes Medical Institute at the University of Pennsylvania. Dr. Albitar received his medical degree in 1979 from Damascus Medical School in Damascus, Syria, and is board-certified in anatomic and clinical pathology with extensive experience in hematopathology.

The Company will pay a monthly fee of $10,000 for Dr. Albitar's services and has issued him an option to purchase 1,000,000 shares of common stock based on commercialization of four new molecular diagnostic tests. The options vest in four installments of 250,000 options. Each installment will vest with the commercialization of each one of the four new molecular diagnostic tests, have an exercise price of $0.15, and expire on August 2, 2015. The fair value of each option granted was $0.13 and was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: dividend yield at 0%, risk-free interest rate of 1.62%, an expected life of 5 years, and volatility of 1.3298%. The aggregate computed value of these options was $130,254, and this amount will be charged as expense over the vesting period.

On Tuesday, May 11, 2010, the Company was awarded the prestigious MICO Award presented by MDB Capital Group, San Francisco, Calif., at its invitation-only Bright Lights Conference held May 11-12, 2010. The MICO Award is Latin for "to shine." The award was presented to the Top 5 companies across all industries with the most potentially disruptive or market changing intellectual property.

In May 2010 the Company announced today that Support Vector Machine technology was used to take first place in solving a complex marketing problem in the recent Active Learning Challenge. The results of the Active Learning Challenge were presented at the 13th International Conference on Artificial Intelligence and Statistics, in Sardinia, Italy.

As previously disclosed, the Company has received numerous letters from the lead purchaser (the "Investor") in the Company's 2007 private placement ("2007 Private Placement"), claiming, among other things, (a) that rights to receive up to 146,664,375 additional shares of the Company's common stock for no additional consideration have been triggered by certain actions of the Company, (b) breaches of its contractual rights to approve certain issuances of options and warrants, (c) breaches of other covenants made by the Company in the 2007 Private Placement, (d) the Company had violated its SEC disclosure obligations, and (e) various breaches by the members of the Board of Directors of their fiduciary duties.

The Company denied the Investor's claims and allegations. However, due to the expense, distraction and uncertainty of potential litigation regarding the claims, the Company negotiated a settlement with the Investor, effective July 27, 2010. Pursuant to the settlement agreement, the Company agreed, among other things, to (a) pay $145,625 to cover certain expenses of the Investor, (b) credit $1,134,375 to cover the aggregate exercise price of warrants to purchase 6,875,000 shares of the Company's common stock held by the Investor, (c) issue to the Investor a new two year warrant to purchase an additional 6,875,000 shares of common stock at an exercise price of $0.17 per share, and (d) file a registration statement covering the resale of the shares of common stock underlying the new warrant. In exchange, the Investor agreed, among other things, to (a) release the Company and certain related persons from all claims through the date of the settlement (including the claims relating to the 2007 Private Placement), (b) waive all future rights under the 2007 Private Placement agreements, and (c) standstill from certain actions related to the Company and its equity securities for a period of five years from the date of settlement. Neither the Company nor the Investor admitted liability or wrongdoing in connection with the settlement.

Intellectual Property Activities

In November 2009, the U.S. Patent and Trademark Office issued a patent based on the Company's application covering an alternative method of feature selection that reduces the number of support vectors to create a sparse-SVM that can be used to generate a codebook for identifying patterns in data, including applications to signal compression.

In March 2010, the U.S Patent and Trademark Office issued a patent based on the Company's method for analyzing spectral data obtained from a mass spectrometer for identification of the most important features in the data that can be used for classification of patient samples. This method is particularly suited for discovery of biomarkers using protein samples.

Also in March 2010, the U.S. Patent and Trademark Office issued a notice of allowance of the Company's application covering methods for analyzing data in a text document to identify matches between strings of characters. This technique for text recognition can be incorporated in a search engine.

In May 2010, the U.S. Patent and Trademark Office issued a notice of allowance of the Company's application covering a system for providing data analysis services using a support vector machine for processing data received from a remote source. The U.S. Patent and Trademark Office issued another notice of allowance in May 2010 for the Company's application covering a method of feature selection and feature ranking using a support vector machine. This method differs from the Company's patented RFE-SVM, thus expanding its coverage of a variety of feature selection methods, which have become essential for identifying the most important data in large datasets.

In June 2010, the Canadian Intellectual Property Office issued a notice of allowance of the Company's application covering Pre-Processing and Post-Processing for Enhancing Knowledge Discovery Using Support Vector Machines. In addition to covering pre-processing and post-processing of data in conjunction with SVM analysis, the claims of this patent cover methods of providing data analysis services using a support vector machine for processing data received from a remote source.

In July 2010, the European Patent Office issued a notice of intent to grant a European patent covering the company's RFE-SVM method. With the issuance of this patent, the Company will have 6 issued patents covering its RFE-SVM technique in the U.S., Australia, Europe and Japan. Additional patents covering the RFE-SVM method are pending.

With the issuance of these patents, the Company will hold the exclusive rights to 47 issued U.S. and foreign patents covering uses of SVM and FGM technology for discovery of knowledge from large and/or complex data sets.

Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009

Revenue

For the three months ended June 30, 2010 revenue was $153,506 compared with $16,215 for the three months ended June 30, 2009. Revenue is recognized for licensing and development fees over the period earned. This revenue is primarily related to ongoing development agreements and amortization of deferred revenue related to prior licensing agreements.

Operating and Other Expenses

Amortization expense was $65,680 for both the three months ended June 30, 2010 and 2009. Amortization expense relates primarily to the costs associated with filing patent application and acquiring rights to the patents.

Professional and consulting fees, totaled $207,776 for the three months ended June 30, 2010 compared with $76,268 for the same 2009 period. The increase is due to primarily to an increase in patent filing and maintenance costs.

Legal fees totaled $249,315 during the three months ended June 30, 2010 and were $79,832 during the same period 2009. The increase was primarily due to legal costs associated with the settlement between the Company and the

Investor as previously noted (note G).

Research and Development Fees were $142,900 for the three months ended June 30, 2010 and $8,975 for the same period in 2009. This increase relates primarily to the costs associated with new business development opportunities and their related research and development.

Compensation of $302,690 for the three months ended June 30, 2010 was higher than the $270,416 reported for the comparable 2009 period. Compensation increased due to the hiring of additional personnel.

Other general and administrative expenses increased to $168,825 for three months ended June 30, 2010 compared to $66,656, for 2009. This increase was due primarily to larger costs incurred for sales, promotional and investor relations activities.

Loss from Operations

The loss from operations for the three months ended June 30 2010 was $983,680 compared to $551,612 for the previous year. This increased loss was due to higher costs primarily associated with legal, research and development and professional fee activities as previously discussed.

Other Income and Expense

Interest income was $5,959, for the three months ended June 30, 2010 compared to $772 in 2009. Interest income increased because the Company had more cash on hand to invest throughout the 2010 period.

As previously discussed, the Company negotiated a settlement with the lead purchaser in the Company's 2007 private placement. As a result, the Company realized a charge of $1,877,647 as settlement charges. During the same period in 2009, there were no settlement charges.

No interest expense was incurred during the three months ended June 30, 2010. The comparable 2009 period had $48 in interest expense.

Net Loss

The net loss for the three months ended June 30, 2010 was $2,855,368 compared to $550,888 for the three months ended June 30, 2009. The increased net loss was due to the increase in settlement charges and loss from operations as previously described.

The net loss attributable to common shareholders was $2,922,676 in 2010 compared to $550,888 in the previous year.

Net loss per share was $0.01 and $0.00 for 2010 and 2009 respectively.

Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

Revenue

For the six months ended June 30, 2010 revenue was $207,684 compared with $32,905 for the six months ended June 30, 2009. Revenue is recognized for licensing and development fees over the period earned. This revenue is primarily related to ongoing development agreements and amortization of deferred revenue related to prior licensing agreements.

Operating and Other Expenses

Amortization expense was $131,360 for both the six months ended June 30, 2010 and 2009. Amortization expense relates primarily to the costs associated with filing patent application and acquiring rights to the patents.

Professional and consulting fees, totaled $329,565 for the six months ended June 30, 2010 compared with $248,663 for the same 2009 period. The increase is due to primarily to an increase in patent filing and maintenance costs.

Legal fees totaled $427,648 during the six months ended June 30, 2010 and were $185,162 during the same period 2009. The increase was primarily due to legal costs associated with the settlement between the Company and the Investor as previously noted (note G).

Research and Development Fees were $192,960 for the six months ended June 30, 2010 and $11,968 for the same period in 2009. This increase relates primarily to the costs associated with new business development opportunities and their related research and development.

Compensation of $700,177 for the six months ended June 30, 2010 was higher than the $438,306 reported for the comparable 2009 period. Compensation increased due to the hiring of additional personnel and bonus amounts earned by Company executives.

Other general and administrative expenses increased to $426,694 for six months ended June 30, 2010 compared to $127,843 for in 2009. This increase was due primarily to increased costs and higher fees associated with public and investor relations activities plus the computed value of director's options.

Loss from Operations

The loss from operations for the six months ended June 30 2010 was $2,000,720 compared to $1,110,397 for the previous year. This increased loss was due to higher costs primarily associated with legal, research and development and professional and administrative activities as discussed above.

Other Income and Expense

Interest income was $10,165 for the six months ended June 30, 2010 compared to $2,413 in 2009. Interest income increased because the Company had more cash on hand to invest throughout the 2010 period.

As previously discussed, the Company negotiated a settlement with the lead purchaser in the Company's 2007 private placement. As a result, the Company realized a charge of $1,877,647 as settlement charges. During the same period in 2009, there were no settlement charges.

Interest expense of $159 for the six months ended June 30, 2010 was slightly less than the $362 recorded for the same period 2009.

Net Loss

The net loss for the six months ended June 30, 2010 was $3,868,361 compared to $1,108,346 for the six months ended June 30, 2009. The increased net loss was due to the increase in settlement charges and loss from operations as previously described.

The net loss attributable to common shareholders was $4,075,407 in 2010 compared to $1,108,346 in the previous year.

Net loss per share was $0.02 for 2010 and $.01 for 2009.

Liquidity and Capital Resources

At June 30, 2010, the Company had $4,466,110 in available cash and certificates of deposits. As of the same date, the Company had total current liabilities of $2,905,451. As a result, we believe we have sufficient resources to meet all of our current obligations.

Our net loss for the six months ended June 30, 2010 was $3,868,361. Our cash used by operating activities for the six months ended June 30, 2010 was $1,420,354. Cash used by investment activities was $1,384,770 due to the purchase of $1,379,606 in additional certificates of deposit and fixed asset acquisitions of $5,164. Cash provided by financing activities was $2,940,358, consisting of proceeds from the exercise of warrants of $3,039,522 less dividends paid of $99,164. As a result, the Company realized an increase of cash of $135,234 during the six months ending June 30, 2010.

In connection with the 2007 private placement, the Company issued warrants to purchase 51,538,822 shares of restricted common stock at an exercise price of $0.19 (the “Tranche 2 Warrants”). Pursuant to the terms of the Tranche 2 Warrants, certain of the holders were obligated to exercise fifty percent of the Tranche 2 Warrants if the average of the last reported closing bid and asked prices on such day on the Over-the-Counter Bulleting Board for the Company’s common stock was $0.24 for a period of thirty consecutive calendar days, which occurred on February 28, 2010, or forfeit the right to acquire those shares. The Company exercised its call rights relating to certain of the Tranche 2 Warrants during the first quarter. As a result, the holders of the Tranche 2 Warrants who received the Company’s call notice were obligated to purchase 14,731,217 shares of restricted common stock or forfeit an equal number of Tranche 2 Warrant shares. The number of shares of common stock purchased relating to the call notice was 11,729,390 and 3,001,827 Warrants were forfeited. The Company has received $2,228,584 in gross proceeds from the purchase of the common stock related to the call provision.

Warrants exercised from January 1, 2010 through March 23, 2010 that were exercised independent of the Tranche 2 Warrant call totaled 4,531,250 warrant shares with proceeds to the Company of $810,939.

No warrants or options were exercised during the second quarter of 2010.

The following table summarizes the due dates of our contractual obligations.

	Total	1 Year Or Less	More Than 1 Year
Accrued Compensation	$ 101,500	$ 101,500	$ -
Office Lease	204,160	40,140	$ 164,020
Total	$ 360,781	$ 196,761	$ 164,020

The Company has relied primarily on equity and debt financing for liquidity. The Company produced sales, licensing, and developmental revenue starting in late 2005 and must so increase revenues in order to generate sufficient cash to continue operations. The Company’s plan to have sufficient cash to support operations is comprised of generating revenue through licensing its significant patent portfolio, providing services related to those patents, and obtaining additional equity or debt financing. The Company has been and continues to be in meaningful discussions with a variety of parties, which if successful may result in significant revenue, as further described above. In the meantime, the Company maintains a cash conservation program.

Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that provide financing, liquidity, market or credit risk support or involve leasing, hedging or research and development services for our business or other similar arrangements that may expose us to liability that is not expressly reflected in the financial statements.

Forward-Looking Statements

This Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 12E of the Securities Exchange Act of 1934, including or related to our future results, certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. When used in this Report, the words “estimate,” “project,” “intend,” “believe,” “expect” and similar expressions are intended to ident forward-looking statements. Although we believe that assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and we may not realize the results contemplated by the forward-looking statement. Management decisions are subjective in many respects and susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our business strategy or capital expenditure plans that may, in turn, affect our results of operations. In light of the significant uncertainties inherent in the forward-looking information included in this Report, you should not regard the inclusion of such information as our representation that we will achieve any strategy, objective or other plans. The forward-looking statements contained in this Report speak only as of the date of this Report as stated on the front cover, and we have no obligation to update publicly or revise any of these forward-looking statements. These and other statements which are not historical facts are based largely on management's current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by such forward-looking statements. These risks and uncertainties include, among others, the failure to successfully develop a profitable business, delays in identifying customers, and the inability to retain a significant number of customers, as well as the risks and uncertainties described in "Risk Factors" section to our Annual Report for the fiscal year ended December 31, 2009, filed on March 31, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4T. Controls and Procedures.

As of the end of the period covered by this report (the “Evaluation Date”), we carried out an evaluation regarding the fiscal quarter ended June 30, 2010, under the supervision and with the participation of our management, including our Chief Executive Officer and our Executive Vice President, who is also serving as our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon this evaluation, our management concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms and that our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management including our Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company’s disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.

The Company’s management is also responsible for establishing and maintaining adequate internal control over financial reporting 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. As of the Evaluation Date, no changes in the Company’s internal control over financial reporting occurred that have materially affected or are reasonably likely to materially affect, the Company’s internal control over financial reporting. Our Annual Report on Form 10-K contains information regarding a material weakness in our internal control over financial reporting as of December 31, 2009 due to an inadequate segregation of duties due to the small number of employees.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

On May 6, 2010, William F. Quirk, Jr., a shareholder of the Company, filed a declaratory judgment action in Georgia state court In the filing, Mr. Quirk contends that, because Mr. Quirk is a 10% shareholder of the Company, the expiration date for certain warrants issued to him is September 7, 2012 rather than September 7, 2010.

The warrants in question were issued to Mr. Quirk in September 2007 as part of the Company’s 2007 private placement transaction and consist of (i) a warrant to purchase up to 16,263,888 shares of HDC common stock at a price of $0.14 per share, and (ii) a warrant to purchase up to 16,263,888 shares of HDC common stock at a price of $0.19 per share. Although the stated expiration date for these warrants is September 7, 2010, Mr. Quirk contends that the expiration date for shareholders holding more than 10% of the Company’s common stock is extended automatically by two years. Accordingly, Mr. Quirk is seeking a judicial declaration that he may exercise his warrants at any time prior to September 7, 2012. Mr. Quirk also is seeking award of his attorney’s fees in connection with the action.

The Company is vigorously defending the action and has filed counterclaims against Mr. Quirk, including his breach of fiduciary duty.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In connection with the 2007 private placement, the Company issued warrants to purchase 51,538,822 shares of restricted common stock at an exercise price of $0.19 (the "Tranche 2 Warrants"). Pursuant to the terms of the Tranche 2 Warrants, certain of the holders were obligated to exercise fifty percent of the Tranche 2 Warrants if the average of the last reported closing bid and asked prices on such day on the Over-the-Counter Bulleting Board for the Company's common stock was $0.24 for a period of thirty consecutive calendar days, which occurred on February 28, 2010, or forfeit the right to acquire those shares. The Company exercised its call rights relating to certain of the Tranche 2 Warrants. As a result, the holders of the Tranche 2 Warrants who received the Company's call notice were obligated to purchase 14,731,217 shares of restricted common stock or forfeit an equal number of Tranche 2 Warrant shares. The number of shares of common stock purchased relating to the call notice was 11,729,390 and 3,001,827 Warrants were forfeited. The Company has received $2,228,584 in gross proceeds from the purchase of the common stock related to the call provision.

Exercised warrants in the First Quarter of 2010 that were exercised independent of the Tranche 2 Warrant call totaled 4,531,250 warrant shares with proceeds to the Company of $810,939.

No warrants or options were exercised during the 2nd quarter of 2010.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Removed and Reserved

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits.

The following exhibits are attached hereto or incorporated by reference herein (numbered to correspond to Item 601(a) of Regulation S-K, as promulgated by the Securities and Exchange Commission) and are filed as part of this Form 10-Q: [Need to determine whether additional contracts need to be filed.]

31.1	Rule 13a-14(a)/15(d)-14(a) Certifications of Chief Executive Officer.
31.2	Rule 13a-14(a)/15(d)-14(a) Certifications of Principal Financial Officer.

32.1	Section 1350 Certification of Chief Executive Officer and Principal Financial Officer.

SIGNATURES

In accordance with the requirement of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Health Discovery Corporation
Registrant

Date: August 16, 2010

/s/ Stephen D. Barnhill
Printed Name: Stephen D. Barnhill M.D.
Title: Chief Executive Officer

Date: August 16, 2010

/s/ Thomas L. Gallagher
Printed Name: Thomas L. Gallagher
Title: Principal Financial Officer

18