HEALTH DISCOVERY CORP
Form 10-Q
November 14, 2014

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 the quarterly period ended September 30, 2014

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transaction period from _____________ to _____________

Commission file number 333-62216
HEALTH DISCOVERY CORPORATION
(Exact name of registrant as specified in its charter)

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

4243 Dunwoody Club Drive
Suite 202
Atlanta, Georgia 30350
(Address of principal executive offices)

678-336-5300
(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 x 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 November 14, 2014
Common Stock, no par value	252,557,310
Series A Preferred Stock	0
Series B Preferred Stock	8,827,500
Series C Preferred Stock	6,140,000

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

HEALTH DISCOVERY CORPORATION

Balance Sheets
(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current Assets		
Cash	$118,854	$71,991
Accounts Receivable	-	80
Investment in Available For Sale Securities (Note G)	524,282	724,000
Total Current Assets	643,136	796,071
Equipment, Less Accumulated Depreciation of $58,860 and $55,133	2,025	5,752
Other Assets		
Patents, Less Accumulated Amortization of $2,716,329 and $2,519,290	1,269,465	1,466,504
Total Assets	$1,914,626	$2,268,327
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts Payable - Trade	$322,818	$326,267
Accrued Liabilities	-	2,500
Dividends Payable - S/T	361,543	308,724
Deferred Revenue	288,788	1,024,988
Total Current Liabilities	973,149	1,662,479
Long Term Liabilities		
Deferred Revenue	159,087	191,628
Total Liabilities	1,132,236	1,854,107
Stockholders' Equity		
Series B Preferred Stock, Convertible, 20,625,000 Shares Authorized, 8,827,500 Issued and Outstanding	677,902	677,902
Series C Preferred Stock, Convertible, 20,000,000 Shares Authorized,		

6,140,000 Issued and Outstanding September 30, 2014		
2,000,000 Issued and Outstanding December 31, 2013	307,000	160,000
Common Stock, No Par Value, 300,000,000 Shares Authorized		
252,557,310 Shares Issued and Outstanding September 30, 2014		
252,557,310 Shares Issued and Outstanding December 31, 2013	26,372,218	26,368,892
Accumulated Deficit	(26,574,730)	(26,792,574)
Total Stockholders’ Equity	782,390	414,220
Total Liabilities and Stockholders’ Equity	$1,914,626	$2,268,327

See accompanying notes to financial statements.

4

HEALTH DISCOVERY CORPORATION

Statements of Operations
(unaudited)

For the Three and Nine Months Ended September 30, 2014 and 2013

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues:				
Licensing & Development	$ 256,247	$ 256,523	$ 773,901	$ 797,222
Operating Expenses:				
Amortization	65,679	65,680	197,039	197,040
Professional and Consulting Fees	26,985	82,427	144,700	580,832
Legal Fees	14,792	116,155	49,171	202,111
Research & Development Fees	23,438	33,668	70,763	92,496
Compensation	62,955	92,374	202,311	416,408
Other General and Administrative Expenses	35,562	63,645	129,803	356,513
Total Operating Expenses	229,411	453,949	793,787	1,845,400
Income (Loss) From Operations	26,836	(197,426)	(19,886)	(1,048,178)
Other Income (Expense)				
Unrealized Gain (Loss) on Available for Sale Securities (Note G)	87,431	(513,059)	(57,619)	(318,400)
Realized Gain on Available for Sale Securities (Note G)	192,783	158,470	295,349	689,982
Settlement Expense	-	(50,000)	-	(50,000)
Total Other Income (Expense)	280,214	(404,589)	237,730	321,582
Net Income (Loss)	$ 307,050	$ (602,015)	$ 217,844	$ (726,596)
Preferred Stock Dividends	17,800	34,335	52,820	102,920
Earnings (Loss) Attributable to Common Shareholders	$ 289,250	$ (636,350)	$ 165,024	$ (829,516)
Weighted Average Outstanding Shares - basic	252,557,310	234,085,644	252,557,310	233,912,033
Earnings (Loss) Per Share - basic	$ 0.001	$ (0.003)	$ 0.001	$ (0.004)
Weighted Average Outstanding Shares - diluted	252, 557,310	234,085,644	252, 557,310	233,912,033

Earnings (Loss) Per Share - diluted	$ 0.001	$ (0.003)	$ 0.001	$ (0.004)

See accompanying notes to financial statements.

5

HEALTH DISCOVERY CORPORATION

Statements of Cash Flows
(unaudited)

For the Nine Months Ended September 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Net Income (Loss)	$217,844	$(726,596)
Adjustments to Reconcile Net Income (Loss) to Net Cash Used for Operating Activities:		
Stock-based Compensation	11,511	35,863
Services Exchanged for Options	44,634	53,106
Realized Gain on Investments in Available for Sale Securities Measured in Accordance with the Fair Value Option (Note G)	(295,349)	(689,982)
Unrealized Loss on Investments in Available for Sale Securities Measured in Accordance with the Fair Value Option (Note G)	57,619	318,400
Depreciation and Amortization	200,766	203,386
Decrease (Increase) in Accounts Receivable	80	(56)
Decrease in Deferred Revenue	(768,741)	(768,741)
(Decrease) Increase in Accounts Payable – Trade	(3,449)	179,453
Decrease in Accrued Liabilities	(2,500)	(55,500)
Net Cash Used for Operating Activities	(537,585)	(1,450,667)
Cash Flows From Investing Activities:		
Proceeds from Sale of Available for Sale Securities (Note G)	437,448	1,307,741
Purchase of Equipment	-	(2,336)
Net Cash Provided by Investing Activities	437,448	1,305,405
Cash Flows From Financing Activities:		
Proceeds from Series C Preferred Stock Issuance	147,000	-
Dividends Paid	-	(9,213)
Net Cash Provided by (Used for) Financing Activities	147,000	(9,213)
Net Increase (Decrease) in Cash	46,863	(154,475)
Cash, at Beginning of Period	71,991	171,424
Cash, at End of Period	$118,854	$16,949

See accompanying notes to financial statements.

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements

Note A - BASIS OF PRESENTATION

Health Discovery Corporation (the "Company") is a biotechnology-oriented company that has acquired patents and has patent pending applications for certain machine learning tools, primarily pattern recognition techniques using advanced mathematical algorithms to analyze large amounts of data thereby uncovering patterns that might otherwise be undetectable. Such machine learning tools are currently in use for diagnostics and drug discovery, but are also marketed for other applications. The Company licenses the use of its patented protected technology and may provide services to develop specific learning tools under development agreements or to sell to third parties.

The accounting principles followed by the Company and the methods of applying these principles conform to 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 nine months ended September 30, 2014 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, 2013.

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 generally governed by contracts that dictate responsibilities and payment terms. The Company recognizes revenues as they are earned over the duration of a license agreement or upon the sale of any owned patent once all contractual obligations have been fulfilled. If a license agreement has an undetermined or unlimited life, the revenue is recognized over the remaining expected life of the patents. Revenue is recognized under development agreements in the period the services are performed.

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 $447,875 as of September 30, 2014. Unearned revenue of $288,788 is recorded as current and $159,087 is classified as long-term.

Note C - NET (LOSS) INCOME 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 for the three and nine month periods ended September 30, 2013 the calculation of diluted per share amounts would create an anti-dilutive result and therefore are not presented in the following table.

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

Note C - NET (LOSS) INCOME PER SHARE, continued

The following is an analysis of the basic and diluted earnings per common share computations for the three and nine months ended September 30, 2014:

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Basic:		
Net income attributable to common shareholders	$ 289,250	$ 165,024
Basic weighted average common shares outstanding	252,557,310	252,557,310
Basic earnings per common share	$ 0.001	$ 0.001
Diluted:		
Net income attributable to common shareholders	$ 289,250	$ 165,024
Basic weighted average common shares outstanding	252,557,310	252,557,310
Effect of dilutive securities:		
Conversion of options and warrants	-	-
Conversion of preferred shares to common shares	-	-
Diluted weighted average common shares outstanding	252,557,310	252,557,310
Diluted earnings per common share	$ 0.001	$ 0.001

During the three and nine month periods ended September 30, 2014, 18,890,000 outstanding stock options and warrants were not included in the computation of diluted earnings per common share because to do so would have an antidilutive effect. In addition, for the three and nine month periods ended September 30, 2014, 14,967,500 in convertible preferred stock was not included in the diluted earnings per common share calculation because to do so would have had an antidilutive effect.

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

Stock-based expense included in our net income for the three months and nine months ended September 30, 2014 consisted of $18,714 and $56,145 respectively for stock options granted to officers and directors. Stock-based expense included in our net loss for the three months and nine months ended September 30, 2013 consisted of a credit of $3,967 and a charge of $88,969 respectively for stock options granted to officers and directors. The credit was related to options being forfeited prior to their vesting schedule where expense had been previously recorded.

As of September 30, 2014, there was approximately $138,000 of unrecognized cost related to stock option and warrant grants. The cost is to be recognized over the remaining vesting periods that average approximately 2.0 years.

There were no grants or exercises of stock options and warrants for the three months ended September 30, 2014. There was a forfeiture of 750,000 warrants due to an expiration of a previously awarded warrant for a director during the second quarter of 2014. As of September 30, 2014, there were 18,890,000 option and warrant shares outstanding with a weighted average exercise price of $0.034.

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

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

The following schedule summarizes combined stock option and warrant information for the nine months ended September 30, 2014.

	Option and Warrant Shares	Weighted Average Exercise Price
Outstanding, December 31, 2013	13,500,000	$0.050
Granted	6,140,000	$0.030
Exercised	-	-
Forfeited	-	-
Expired un-exercised	(750,000)	$0.080
Outstanding, September 30, 2014	18,890,000	$0.034

The following schedule summarizes combined stock option and warrant information as of September 30, 2014:

Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Remaining Contractual Life (years) of Exercisable Warrants and Options
$0.027	3,000,000	8.75	1,000,000	8.75
$0.036	7,750,000	9.00	3,041,668	9.00
$0.040	1,000,000	3.25	1,000,000	3.25
$0.030	6,140,000	9.25	6,140,000	9.25
$0.050	1,000,000	3.25	1,000,000	3.25
Total	18,890,000		12,181,668	

The weighted average remaining life of all outstanding warrants and options at September 30, 2014 is 8.5 years. As of September 30, 2014, the aggregate net intrinsic value of all options and warrants outstanding is zero, based on the market closing price of $0.02 on September 30, 2014, less exercise prices.

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 are capitalized as patent assets. The Company has recorded as other assets $1,269,465 in patents and patent related costs, net of $2,716,329 in accumulated amortization, at September 30, 2014. Amortization charged to operations for the three months ended September 30, 2014 and 2013, were $65,679 and $65,680 respectively. Amortization expensed for the nine months ended September 30, 2014 and 2013 were $197,039 and $197,040 respectively. Estimated amortization expense for the next five years is $262,720 per year through 2018 and $152,907 in 2019.

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

Note F – STOCKHOLDERS' EQUITY

Series B Preferred Stock

The Company sold to individual investors a total of 19,402,675 shares of Series B Preferred Stock for $1,490,015, net of associated expenses, in 2009.

The Series B Preferred Stock may be converted into Common Stock of the Company at the option of the holder, without the payment of additional consideration by the holder, so long as the Company has a sufficient number of authorized shares to allow for the exercise of all of its outstanding warrants and options. The shares of Series B Preferred Stock will convert into Common Stock of the Company in the fourth quarter of 2014, which is the fifth anniversary of the date of issuance.

The Series B Preferred Stock accrues dividends at the rate of 10% of the Series B Original Issue Price per year, which shall be satisfied by the fifth anniversary of the issuance of such shares of the Series B Preferred Stock (the "Original Issue Date") by the Company's issuance of the number of shares of Common Stock equal to such accrued dividends divided by the average closing price of the Company's Common Stock as reported on the Over-the-Counter-Bulletin Board or other exchange on which the Company's Common Stock trades during the prior ten business days or by the payment of cash, as the Company may determine in its sole discretion. Dividends have been accrued for the Series B Preferred Stock in the amount of $361,543 as of September 30, 2014 and $308,724 as of December 31, 2013. Given the Company's limited cash position and limited amount of available common stock, the Company is evaluating the best method to satisfy the accrued dividend.

Subject to the limitations set forth in the Amended and Restated Articles of Amendment to Articles of Incorporation and applicable law, as long as the Series B Preferred Stock remain outstanding, the Company is required to pay the holders of the Series B Preferred Stock a special dividend equal to 15% of Company Net Revenue collected beginning with the Original Issue Date and ending on the date the Series B Preferred Stock cease to be outstanding (the "Cash Bonus"). Company Net Revenue include, but is not limited to, revenue derived from development fees, license fees and royalties paid to the Company and revenue collected as a result of the sale of any asset of the Company or distributions from SVM Capital, LLC (each a "Revenue Contract"), reduced by the amount of any out-of-pocket costs or expenses that are directly related to obtaining, negotiating or documenting the Revenue Contracts and the performance of such Revenue Contracts, but does not include the proceeds of any capital infusions from the exercise of outstanding options or warrants or as a result of any capital raise undertaken by the Company. At any time following the Original Issue Date, the Company may satisfy the special dividend right in its entirety if the aggregate payments made to the Series B Holders are equal to that value which provides an internal annual rate of return of twenty percent (20%) on the Series B Preferred Stock. No special dividends are accrued for the Series B Preferred Stock special dividend as of September 30, 2014 and December 31, 2013.

No dividend payment will be made if, after the payment of such dividend, the Company would not be able to pay its debts as they become due in the usual course of business, or the Company's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the Company were to be dissolved, to satisfy the preferential rights upon the dissolution to shareholders whose preferential rights are superior to those receiving the dividend.

Series C Preferred Stock

In the fourth quarter of 2013, the Board of Directors authorized the issuance of Series C Preferred Shares in private placement transactions. As of December 31, 2013 2,000,000 shares had been issued and the Company received net proceeds of $160,000. As of September 30, 2014 the Company had issued a total of 6,140,000 preferred shares and received total net proceeds of $307,000. The Series C Preferred Shares are accompanied by $0.03 warrants and $0.03 contingency warrants. The contingency warrants will be issued only if the company has not attained profitability by the end of the first quarter 2016. The holders must exercise fifty percent of the warrants if the market price for the Company's common stock is $0.20 for a period of thirty consecutive calendar days. The holders must also exercise fifty percent of the warrants if the market price for the Company's common stock is $0.30 for a period of thirty consecutive calendar days. The warrants were valued at $0.025 each using the Black Scholes Method.

HEALTH DISCOVERY CORPORATION

Notes to Financial Statements, continued

Note F – STOCKHOLDERS' EQUITY, continued

This funding is anti-dilutive because the purchase price is significantly higher than the current 180-day average share price. The Series C Preferred Stock has not been registered under either federal or state securities laws and must be held until a registration statement covering such securities is declared effective by the Securities and Exchange Commission or an applicable exemption applies.

The Series C Preferred Stock may be converted into Common Stock of the Company at the option of the holder, without the payment of additional consideration by the holder, so long as the Company has a sufficient number of authorized shares to allow for the exercise of all of its outstanding warrants and options. The Shares of Series C Preferred Stock must be converted into Common Stock of the Company either by the demand by the shareholder or at the fifth anniversary of the date of issuance. If the Company were to be dissolved, the Series C Preferred Stock receives preferential treatment versus Common Stock.

Note G – INVESTMENT IN AVAILABLE FOR SALE SECURITIES

The Company has elected the fair value option in accordance with ASC 825, Financial Instruments, as it relates to its shares held in NeoGenomics' common stock that were acquired resulting from the NeoGenomics Master License Agreement executed on January 6, 2012. Management made the election for the fair value option related to this investment because it believes the fair value option for the NeoGenomics common stock provides a better measurement from which to compare financial statements from reporting period to reporting period. No other financial assets or liabilities are measured at fair value using the fair value option.

The Company's investment in NeoGenomics' common stock is recorded on the accompanying balance sheets under the caption Investment in Available for Sale Securities. The carrying value of this investment on the date of acquisition approximated $1,945,000. The change in fair value from December 31, 2013 to September 30, 2014 was a net gain of $237,730 and is classified as other income under the captions Realized and Unrealized Gain (Loss) on Available for Sale Securities in the accompanying statements of operations. The change in fair value from December 31, 2012 to September 30, 2013 was $371,582 and is classified as other income under the captions Realized and Unrealized Gain (Loss) on Available for Sale Securities for the nine months ended September 30, 2013 in the accompanying statements of operations. The Company classifies its investment as an available for sale security presented as a trading security on the balance sheet and the fair value is considered a Level 1 investment in the fair value hierarchy. The September 30, 2014 fair value of the investment of $524,282 is for the remaining shares held and is calculated using the closing stock price of the NeoGenomics common stock at the end of the reporting period.

As of September 30, 2014 the Company held 100,630 shares of NeoGenomics stock as compared to 200,000 shares as of December 31, 2013. The initial 1,360,000 shares were acquired in January 2012 as a result of the NeoGenomics Master License Agreement.

Note H – COMMITMENTS

On July 17, 2013, the Company received a Civil Investigative Demand (the "Demand") from the Federal Trade Commission of the United States of America (the "FTC") relating to the Company's MelApp software application. In the

Demand, the FTC has requested information relating to potentially unfair or deceptive acts or practices related to (i) false advertising and (ii) consumer privacy and data security, in violation of Trade Commission Act, 15 U.S.C. Sections 45 and 42. The Company is in the process of negotiating a potential consent order with the FTC to resolve the matter.

From time to time, 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.

HEALTH DISCOVERY CORPORATION

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

Corporate Overview

Our Company is a pattern recognition company that uses advanced mathematical techniques to analyze large amounts of data to uncover patterns that might otherwise be undetectable. The Company operates primarily in the field of molecular diagnostics where such tools are critical to scientific discovery. The terms artificial intelligence and machine learning are sometimes used to describe pattern recognition tools.

HDC's mission is to use its patents, intellectual prowess, and clinical partnerships principally to identify patterns that can advance the science of medicine, as well as to advance the effective use of our technology in other diverse business disciplines, including the high-tech, financial, and healthcare technology markets.

Our historical foundation lies in the molecular diagnostics field where we have made a number of discoveries that play a role in developing more personalized approaches to the diagnosis and treatment of certain diseases. However, our SVM assets in particular have broad applicability in many other fields. Intelligently applied, HDC's pattern recognition technology can be a portal between enormous amounts of otherwise undecipherable data and truly meaningful discovery.

Our Company's principal asset is its intellectual property which includes advanced mathematical algorithms called Support Vector Machines (SVM) and Support Vector Machines along with Recursive Feature Elimination (SVM-RFE), as well as biomarkers that we discovered by applying our SVM and SVM-RFE techniques to complex genetic and proteomic data. Biomarkers are biological indicators or genetic expression signatures of certain disease states. Our intellectual property is protected by numerous patents that have been issued or are currently pending around the world.

Our business model has evolved over time to respond to business trends that intersect with our technological expertise and our capacity to professionally manage these opportunities. In the beginning, we sought only to use our SVMs internally in order to discover and license our biomarker signatures to various diagnostic and pharmaceutical companies. Today, our commercialization efforts include: utilization of our discoveries and knowledge to help develop diagnostic and prognostic predictive tests; licensing of the SVM and SVM-RFE technologies directly to diagnostic companies; and, the potential formation of new ventures with domain experts in other fields where our pattern recognition technology holds commercial promise.

Operational Activities

The Company markets its technology and related developmental expertise to prospects in the healthcare, 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 may produce favorable results in the future.

NeoGenomics License

On January 6, 2012, we entered into a Master License Agreement (the "NeoGenomics License") with NeoGenomics Laboratories, Inc. ("NeoGenomics Laboratories"), a wholly owned subsidiary of NeoGenomics, Inc. ("NeoGenomics"). Pursuant to the terms of the NeoGenomics License, we granted to NeoGenomics Laboratories and its affiliates an exclusive worldwide license to certain of our patents and know-how to use, develop and sell products in the fields of laboratory testing, molecular diagnostics, clinical pathology, anatomic pathology and digital image analysis (excluding non-pathology-related radiologic and photographic image analysis) relating to the development, marketing production or sale of any “Laboratory Developed Tests” or LDTs or other products used for diagnosing, ruling out, predicting a response to treatment, and/or monitoring treatment of any or all hematopoietic and solid tumor cancers excluding cancers affecting the retina and breast cancer. We retain all rights to in-vitro diagnostic (IVD) test kit development.

12

HEALTH DISCOVERY CORPORATION

Management's Discussion and Analysis, continued

Upon execution of the NeoGenomics License, NeoGenomics Laboratories paid us $1,000,000 in cash and NeoGenomics issued to us 1,360,000 shares of NeoGenomics' common stock, par value $0.001 per share, which had a market value of $1,945,000 using the closing price of $1.43 per share for NeoGenomics' common stock on the OTC Bulletin Board on January 6, 2012. In addition, the NeoGenomics License provides for milestone payments in cash or stock, based on sublicensing revenue and revenue generated from products and services developed as a result of the NeoGenomics License. Milestone payments will be in increments of $500,000 for every $2,000,000 in GAAP revenue recognized by NeoGenomics Laboratories up to a total of $5,000,000 in potential milestone payments. After $20,000,000 in cumulative GAAP revenue has been recognized by NeoGenomics Laboratories, we will receive a royalty of (i) 6.5% (subject to adjustment under certain circumstances) on net revenue generated from all Licensed Uses except for the Cytogenetic Interpretation System and the Flow Cytometry Interpretation System and (ii) a royalty of 50% of net revenue (after the recoupment of certain development and commercialization costs) that NeoGenomics Laboratories derives from any sublicensing arrangements it may put in place for the Cytogenetic Interpretation System and the Flow Cytometry Interpretation System.

NeoGenomics Laboratories agreed to use it best efforts to commercialize certain products within one year of the date of the license, subject to two one-year extensions per product if needed, including a "Plasma Prostate Cancer Test", a "Pancreatic Cancer Test", a "Colon Cancer Test", a "Cytogenetic Interpretation System", and a "Flow Cytometry Interpretation System." NeoGenomics is currently under the second of its one-year extension terms of the license.

If NeoGenomics Laboratories has not generated $5 million of net revenue from products, services and sublicensing arrangements within five years, we may, at our option, revoke the exclusivity with respect to any one or more of the initial licensed products, subject to certain conditions.

The Company believes our relationship with NeoGenomics is instrumental in our medical and diagnostic testing development. We further believe the majority, if not all, of our applications in the medical field will be done in conjunction with NeoGenomics.

Plasma Test for Prostate Cancer

NeoGenomics is developing a test for prostate cancer under the direction of Dr. Maher Albitar using several of the genes patented by HDC. The test is performed on blood plasma and urine rather than only prostate tissue biopsies. NeoGenomics recently announced that a publication has been released regarding Phase I of the test's development. Additionally, NeoGenomics has announced that it has completed Phase II of the prostate test validation, which results were largely the same as those published regarding Phase I. While further validation work needs to be completed, NeoGenomics continues to be encouraged about the potential for this new test. This test, which uses HDC's patented technology, is available for ordering by patients who want to participate in NeoGenomics' ongoing clinical trial agreement. NeoGenomics is planning a full launch of this prostate test in 2015.

Cytogenetic Analysis

Cytogenetic analysis is the science of studying chromosomes. Microscopic evaluation of individual chromosomes remains the first step in the evaluation of the human genome. Cytogenetic analysis is performed on almost all patients with hematopoietic diseases (blood cancers such as leukemia and lymphoma) and on a significant number of patients with solid tumors. The collected data is useful for diagnosis, prognosis and monitoring of diseases. Currently, specially trained technicians perform most of the analysis manually. The work is labor-intensive and subjective. Computer automation of this work could significantly reduce cost and improve the quality of the test.

NeoGenomics is currently working on development, validation and commercialization of this new image analysis tool for cytogenetic analysis under the direction of Dr. Maher Albitar. The Company and NeoGenomics have spent a considerable amount of time using SVM Technology to create significant improvement in cytogenetic analysis. NeoGenomics is currently beta testing this co-developed technology within their facilities. One of the goals with this technology is for NeoGenomics to sub-license this technology after successful internal testing and validation. Per the license agreement, HDC will receive a portion of the sub-license revenue generated by NeoGenomics.

HEALTH DISCOVERY CORPORATION

Management's Discussion and Analysis, continued

Flow Cytometry

Management believes that our efforts to develop an SVM-based diagnostic test to help interpret flow cell cytometry data for myelodysplastic syndrome (pre-leukemia) has resulted in a successful proof of concept. The Company, along with NeoGenomics, is now capable of completing development, final validation and commercialization of the new diagnostic test for the interpretation of flow cytometry data. This test has been licensed to NeoGenomics for final development and work has begun on the further development of this technology.

SVM Capital, LLC

In January 2007, SVM Capital, LLC ("SVM Capital" or "SVMC") was formed as a joint venture between HDC and Atlantic Alpha Strategies, LLC ("Atlantic Alpha") to explore and exploit the potential applicability of our SVM technology to quantitative investment management techniques. Atlantic Alpha's management has over thirty years of experience in commodity and futures trading. .

In November 2012 Atlantic Alpha began auditable formal live trading with internal capital provided by SVM Capital by applying SVM technology to quarterly fundamental corporate data such as sales, earnings and projected earnings. The SVM algorithm is utilized to select U.S. stocks which are expected to outperform or underperform in the next quarter based on current data while at the same time rendering superior portfolio risk metrics. This application of SVM technology allows the creation of a variety of equity portfolios. Earlier this year, the decision was made to liquidate the small-cap long and mid-cap long/short investments as the discussions outlined below have indicated that prospective seed investors are only interested in the large-cap long/short stock portfolio.

SVM Capital's immediate goal is to secure a "seed investor", i.e. an "anchor tenant" for whom to manage money, which may then lead to capital allocations from other investors. The seed investor may be an institution, family office or individual. To this end, SVM Capital is working both independently and with one or more intermediaries. The long-term strategy is to create quantitative portfolios in other financial markets such as foreign stock markets, debt instruments and commodities. SVM Capital may also consider licensing its technology or using other methods that may lead to monetization. SVM Capital also placed first in its division in the "Battlefin" quant strategy international contest that ended in March 2014. This accomplishment has contributed to the credibility of SVM Capital's quantitative investment algorithms in discussions with several investment groups to advance SVMC's strategic goals.

Intellectual Property Developments

Currently, the Company holds the exclusive rights to 65 issued U.S. and foreign patents covering uses of SVM, SVM-RFE and FGM technology for discovery of knowledge from large data sets. The reduction in the total number of issued and pending patents during the past year resulted from the Company's decision to allow certain foreign patents issued and/or filed in countries that were deemed to have lower strategic value to lapse. This in turn reduced the Company's total expenses for patent maintenance.

Intel

The Company’s patent application that was submitted to provoke an interference with Intel’s Patent No. 7,685,077 remains pending, and interference proceedings have yet to be initiated. The Company continues to evaluate the best approach to this matter that will allow protection of the patent in the most cost efficient manner possible.

HEALTH DISCOVERY CORPORATION

Management's Discussion and Analysis, continued

Three Months Ended September 30, 2014 Compared with Three Months Ended September 30, 2013

Revenue

For the three months ended September 30, 2014, revenue was $256,247 compared with $256,523 for the three months ended September 30, 2013. The revenue earned during the third quarter of 2014 and 2013 is entirely related to the licensing revenue recognition for the NeoGenomics License.

Operating and Other Expenses

Amortization expense was approximately $65,680 for both the three months ended September 30, 2014 and 2013. Amortization expense relates primarily to the costs associated with filing patent applications and acquiring rights to the patents.

Professional and consulting fees totaled $26,985 for the three months ended September 30, 2014, compared with $82,427 for the same 2013 period. These fees consist primarily of patent filing and maintenance costs, professional fees, and accounting fees. The decrease was due to the elimination of professional services provided to the Company, specifically consulting fees paid to a former management consultant and the elimination of certain patent filing and maintenance costs.

Legal fees decreased over the three-month period with fees totaling $14,792 during the three months ended September 30, 2014 and $116,155 during the same period in 2013. The decrease in legal fees is primarily related to matters pertaining to the FTC Demand matter, that occurred in the three-month period ended September 30, 2013 and did not reoccur in the three-month period ended September 30, 2014.

Research and development expense was $23,438 for the three months ended September 30, 2014, and $33,668 for the same period in 2013. This expense is associated with our development costs associated with the NeoGenomics relationship.

Compensation expense of $62,955 for the three months ended September 30, 2014 was lower than the $92,374 reported for the comparable 2013 period. The decrease is attributed to the elimination of the Company's former CEO, John Norris.

Other general and administrative expense decreased to $35,562 for the three months ended September 30, 2014, compared to $63,645, for the same period in 2013. This decrease was due to the reduction of expenses related to travel expenses and a reduction in all non-essential costs by management.

Income (Loss) from Operations

The income from operations for the three months ended September 30, 2014 was $26,836, compared to a loss from operations of $197,426 for the three months ended September 30, 2013. Income from operations was reported as a result of lower costs primarily associated with professional and consulting fees, compensation and other general and administrative expenses.

Other Income and Expense

The Company received a portion of the NeoGenomics license fee in NeoGenomics stock in January 2012. The Company has chosen to measure the gain or loss on the value of this asset using the fair value option method. During the three month period ended September 30, 2014, the change in the NeoGenomics stock fair value increased by $280,214, which is recorded as other income in the statements of operations. During the same three month period in 2013, the change in the NeoGenomics stock fair value decreased by $354,589. Additionally, during the three month period ended September 30, 2013, the Company entered into a settlement agreement with a former CEO, Steve Barnhill, and recognized a $50,000 charge associated with Mr. Barnhill.

15

HEALTH DISCOVERY CORPORATION

Management's Discussion and Analysis, continued

Net Income (Loss)

The net income for the three months ended September 30, 2014 was $307,050, compared to a loss of $602,015 for the three months ended September 30, 2013. The change was due primarily to decreased operating expenses and the change in NeoGenomics stock fair value.

The earnings attributable to common shareholders was $289,250 for the three months ended September 30, 2014 compared to a loss of $636,350 in the three months ended September 30, 2013. The change is related to lower expenses related to the Company's efforts to control costs and the increase in the stock price of NeoGenomics.

Basic and diluted earnings per share was $0.001 for the three-month period ended September 30, 2014 compared to a loss per share of $0.003 for the quarterly period ended September 30, 2013.

Nine Months Ended September 30, 2014 Compared with Nine Months Ended September 30, 2013

Revenue

For the nine months ended September 30, 2014, revenue was $773,901 compared with $797,222 for the nine months ended September 30, 2013. Revenue is recognized for licensing and development fees over the period earned. The revenue earned is entirely related to the licensing revenue recognition for the NeoGenomics License.

Operating and Other Expenses

Amortization expense was $197,039 for the nine months ended September 30, 2014 and 197,040 for the nine months ended September 30, 2013. Amortization expense relates primarily to the costs associated with filing patent application and acquiring rights to the patents.

Professional and consulting fees were $144,700 for the nine months ended September 30, 2014 compared with $580,832 for the same 2013 period. The decrease was due to the elimination of professional services provided to the Company, specifically consulting fees paid to a former management consultant.

Legal fees totaled $49,171 during the nine months ended September 30, 2014 compared to $202,111 during the same period in 2013. The reduction was attributed to legal costs incurred in 2013 related to matters pertaining to the Company's previous CEO, Steve Barnhill.

Research and Development fees were $70,763 for the nine months ended September 30, 2014 and $92,496 for the same period in 2013. This expense for research and development relates primarily to work completed under the NeoGenomics License.

Compensation expense of $202,311 for the nine months ended September 30, 2014 was less than the $416,408 reported for the comparable 2013 period. The decrease is attributed to the elimination of the Company's former CEO, John Norris.

Other general and administrative expenses decreased to $129,803 for nine months ended September 30, 2014 compared to $356,513 in 2013. This decrease was due to the reduction of expenses related to director's fees, reduced travel expenses and a reduction in all non-essential costs by the new leadership beginning in August 2013.

Loss from Operations

The loss from operations for the nine months ended September 30, 2014 was $19,886 compared to $1,048,178 for the period ended September 30, 2013. This reduction in loss from operations was due to lower compensation, professional and consulting fees, and general and administration costs. Furthermore, the Company's overall disciplined approach to control costs has contributed to the significant reduction in loss from operations.

HEALTH DISCOVERY CORPORATION

Management's Discussion and Analysis, continued

Other Income and Expense

The Company received a portion of the NeoGenomics license fee in NeoGenomics stock. The Company has chosen to measure the gain or loss on the value of this asset using the fair value option method. During the nine month period ended September 30, 2014, the NeoGenomics stock fair value increased by $237,730, which is recorded as other income in the statements of operations. During the same period in 2013, the NeoGenomics stock increased by $371,582. Additionally, during the nine month period ended September 30, 2013, the Company entered into a settlement agreement with a former CEO, Steve Barnhill, and recognized a $50,000 charge associated with Mr. Barnhill.

Net Income (Loss)

The net income for the nine months ended September 30, 2014 was $217,844 compared to a loss of $726,596 for the nine months ended September 30, 2013. This reversal from a net loss to net income was due to lower operating expenses and the Company's efforts to control costs.

The net income attributable to common shareholders was $165,024 for the nine months ended September 30, 2014 compared to a loss of $829,516 in the nine months ended September 30, 2013.

Basic and diluted earnings per share was $0.001 for the nine month period ended September 30, 2014 compared to a loss per share of $0.004 for the nine month period ended September 30, 2013.

Liquidity and Capital Resources

Our ability to continue as a going concern is dependent upon our licensing arrangements with third parties, achieving profitable operations, obtaining additional financing and successfully bringing our technologies to the market. The outcome of these matters cannot be predicted at this time. Our financial statements have been prepared on a going concern basis and do not include any adjustments to the amounts and classifications of the assets and liabilities that might be necessary should we be unable to continue in business.

If the going concern assumption was not appropriate for our financial statements then adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments may be material.

At September 30, 2014, the Company had $118,854 in cash and total current liabilities of $973,149. The primary amount of current liabilities relates to $361,543 in dividends payable. Additionally, we continue to sell our NeoGenomics Stock in order to fund operations. Although the NeoGenomics Stock has increased in value, the number of shares and amount of cash we can generate from the sale of NeoGenomics Stock is subject to fluctuating market and price conditions. As a result we do not believe we have sufficient resources to meet all of our current obligations unless the Company is able to secure revenue via licensing activity or other forms of fund raising either in the debt or equity markets. None of these options are definitive and there can be no assurances the Company will be successful in these financing efforts.

The Company has relied primarily on the sale of NeoGenomics stock as well as equity and debt financing for liquidity. The Company must 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 selling its NeoGenomics stock, 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 unable to generate significant revenue, as further described above. As a result, the Company has implemented a cash conservation program.

As previously disclosed, the Company initially took steps to reduce its expenditures in order to reduce the "burn rate" of cash to approximately $185,000 per month. These steps included reducing expenses and allocating our remaining cash reserves for our operational requirements at a reduced level. Subsequently, the new Board and management team took steps necessary to substantially improve the prior burn. They have been successful in this endeavor and the burn rate has been reduced to approximately $50,000 per month. Nevertheless, the Company still will need additional financing in order to continue operations beyond September 2015. The Company continues to explore various means to raise capital, either via debt or equity offerings

HEALTH DISCOVERY CORPORATION

Management's Discussion and Analysis, continued

Off-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, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. 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 September 30, 2014, under the supervision and with the participation of our management, including our Interim Chief Executive Officer, 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.

HEALTH DISCOVERY CORPORATION

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, 2013 due to an inadequate segregation of duties resulting from our small number of employees.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, 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. Except as set forth below, there were no material changes from the risk factors as previously disclosed in our Annual Report for the fiscal year ended December 31, 2013 filed with the SEC on March 31, 2014.

Our Ability to Meet Our Cash Needs and Our Net Income Would be Adversely Affected by a Decline in the Stock Price of NeoGenomics Stock

We rely on the sale of the NeoGenomics Stock that we received in January 2012 as a license fee in order to fund operations. The Company would be adversely affected by a decrease in the market price of NeoGenomics Stock. At September 30, 2014, the Company had $118,854 in cash and cash equivalents and total current liabilities of $973,149. Although the NeoGenomics Stock has increased in value compared to the acquisition date, a decrease in the price of NeoGenomics stock would have a significant impact on our operations. The number of shares and amount of cash we can generate from the sale of NeoGenomics Stock is subject to fluctuating market and price conditions. In addition, the Company has chosen to measure the gain or loss on the value of this asset using the fair value option method. Accordingly, a decline in the price of NeoGenomics stock adversely affects our reported net income.

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

None.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

HEALTH DISCOVERY CORPORATION

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:

3.1 Articles of Incorporation. Registrant incorporates by reference Exhibit 3.1 to Form 8-K filed July 18, 2007.

3.1(a) Articles of Amendment to Articles of Incorporation. Registrant incorporates by reference Exhibit 99.1 to Form 8-K filed October 10, 2007.

3.1(b) Articles of Amendment to Articles of Incorporation. Registrant incorporates by reference Exhibit 3.1(b) to Form 10-K filed March 31, 2009.

3.1(c) Amended and Restated Articles of Amendment to Articles of Incorporation. Registrant incorporates by reference Exhibit 3.1 to Form 10-Q filed November 16, 2009.

3.1(d) Amended and Restated Articles of Amendment to Articles of Incorporation dated November 14, 2014. Filed herewith.

3.2 By-Laws. Registrant incorporates by reference Exhibit 3.2 to Form 8-K filed July 18, 2007.

4.1 Copy of Specimen Certificate for shares of Common Stock. Registrant incorporates by reference Exhibit 4.1 to Registration Statement on Form SB-2, filed June 4, 2001.

10.27 License Agreement, dated January 6, 2012, between Health Discovery Corporation and NeoGenomics Laboratories, Inc. Registrant incorporates by reference Exhibit 10.27 to Form 8-K filed on January 12, 2012.

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

32.1 Section 1350 Certifications of Chief Executive Officer and Principal Financial Officer. Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Health Discovery Corporation Registrant
Date: November 14, 2014	By: /s/ Kevin Kowbel Printed Name: Kevin Kowbel Title: Interim Chief Executive Officer, Principal Financial Officer, and Principal Accounting Officer

21