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

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2010 or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file number 0-26285

CNS RESPONSE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**87-0419387**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

85 Enterprise, Suite 410
Aliso Viejo, CA 92656
(Address of principal executive offices)(Zip Code)

(714) 545-3288
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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 ☐ No ☐

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

Large accelerated filer ☐		Accelerated filer ☐
Non-accelerated filer ☐	(Do not check if smaller reporting company)	Smaller reporting company ☒

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

As of August 13, 2010, the issuer had 56,023,921 shares of common stock, par value $.001 per share, issued and outstanding.

CNS RESPONSE, INC.

INDEX TO FORM 10-Q

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

CNS RESPONSE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended June 30,		For the nine months ended June 30,	
	2010	**2009**	**2010**	**2009**
REVENUES				
Laboratory Information Services	$ 39,900	$ 26,700	$ 96,700	$ 86,300
Clinical Services	119,300	133,700	384,300	441,900
	159,200	160,400	481,000	528,200
OPERATING EXPENSES				
Cost of laboratory services revenues	32,800	30,700	101,900	99,800
Research and development	302,400	480,800	843,600	1,628,500
Sales and marketing	201,600	161,300	603,800	708,100
General and administrative	1,081,700	867,500	3,639,900	2,360,100
Total operating expenses	1,618,500	1,540,300	5,189,200	4,796,500
OPERATING LOSS	(1,459,300)	(1,379,900)	(4,708,200)	(4,268,300)
OTHER INCOME (EXPENSE):				
Interest income (expense), net	(40,900)	(126,300)	(42,600)	(129,900)
Financing premium (expense), net	-	(90,000)	-	(90,000)
Total other income	(40,900)	(216,300)	(42,600)	(219,900)
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,500,200)	(1,596,200)	(4,750,800)	(4,488,200)
Income taxes	-	4,300	2,400	7,200
NET LOSS	$ (1,500,200)	$ (1,600,500)	$ (4,753,200)	$ (4,495,400)
NET LOSS PER SHARE:				
Basic	$ (0.03)	$ (0.06)	$ (0.09)	$ (0.18)
Diluted	$ (0.03)	$ (0.06)	$ (0.09)	$ (0.18)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	56,023,921	25,782,277	51,028,185	25,460,457
Diluted	56,023,921	25,782,277	51,028,185	25,460,457

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

CNS RESPONSE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (unaudited)	September 30, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 35,100	$ 988,100
Accounts receivable (net of allowance for doubtful accounts of $11,100 (unaudited) as of June 30, 2010 and $11,200 as of September 30, 2009)	56,300	61,700
Prepaid and other	105,600	89,500
Total current assets	197,000	1,139,300
Furniture and Fittings	19,200	17,500
Other Assets	18,700	4,100
TOTAL ASSETS	$ 234,900	$ 1,160,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable (including amounts due to related parties of $25,600 (unaudited) as of June 30, 2010 and $7,000 as of September 30, 2009)	$ 1,116,300	$ 1,285,600
Accrued liabilities	325,700	261,400
Deferred compensation (including $92,000 (unaudited) and $81,200 to related parties as of June 30, 2010 and September 30, 2009 respectively)	237,600	220,100
Accrued patient costs	144,000	305,500
Accrued consulting fees (including $18,000 (unaudited) and $18,000 to related parties as of June 30, 2010 and September 30, 2009 respectively)	75,000	72,100
Accrued Interest	1,800	-
Secured convertible promissory note, net of discount of $187,500	62,500	-
Current portion of long-term debt	51,000	95,900
Total current liabilities	2,013,900	2,240,600
LONG –TERM LIABILITIES		
Note payable to officer	-	24,800
Capital lease	4,000	5,600
Total long term liabilities	4,000	30,400
TOTAL LIABILITIES	2,017,900	2,271,000
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity (deficit):		
Common stock, $0.001 par value; authorized, 750,000,000 shares, issued and, 56,023,921 and 41,781,129 shares outstanding as of June 30, 2010 and September 30, 2009 respectively	56,000	41,800
Additional paid-in capital	28,110,100	24,044,000
Accumulated deficit	(29,949,100)	(25,195,900)
Total stockholders' equity (deficit)	(1,783,000)	(1,110,100)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 234,900	$ 1,160,900

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

CNS RESPONSE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended June 30,	
	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (4,753,200)	$ (4,495,400)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and Amortization	7,200	6,700
Amortization of note discount	37,500	107,500
Stock-based compensation	859,900	644,200
Write-off of doubtful accounts	13,400	22,700
Changes in operating assets and liabilities:		
Accounts receivable	(8,000)	(27,300)
Prepaids and other current assets	(16,100)	(12,000)
Accounts payable	(169,300)	437,200
Accrued liabilities	69,000	112,700
Deferred compensation	17,500	(48,800)
Accrued patient costs	(161,500)	126,700
Security deposits on leases	(14,600)	-
Net cash used in operating activities	(4,118,200)	(3,125,800)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of office furniture	(8,900)	(2,000)
Net cash used in investing activities	(8,900)	(2,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash from Secured Convertible notes	250,000	1,700,000
Repayment of note	(69,800)	(114,400)
Repayment of lease	(1,500)	(1,400)
Funds pending exercise of options	-	280,500
Cash from exercise of warrants	-	14,400
Proceeds from sale of common stock, net of offering costs	2,995,400	-
Net cash provided by financing activities	3,174,100	1,879,100
Net decrease in cash	(953,000)	(1,248,700)
Cash, beginning of period	988,100	1,997,000
Cash, end of period	$ 35,100	$ 748,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 8,200	$ 61,500
Income taxes	$ 2,400	$ 7,200

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

CNS RESPONSE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the nine months ended June 30, 2010	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE - September 30, 2009	41,781,129	$ 41,800	$ 24,044,000	$ (25,195,900)	$ (1,110,100)
Stock- based compensation	-	-	859,900	-	859,900
Issuance of stock in connection with the Maxim PIPE net of offering costs of $540,600	11,786,666	11,800	2,983,600	-	2,995,400
Warrants issued in association with the Maxim PIPE	-	-	7,615,100	-	7,615,100
Offering cost pertaining to the Maxim PIPE	-	-	(7,615,100)	-	(7,615,100)
Value of warrants surrendered for cashless exercise	-	-	(415,800)	-	(415,800)
Stock issued for cashless exercise	2,456,126	2,400	413,400	-	415,800
Beneficial conversion feature - Secured convertible promissory note	-	-	225,000	-	225,000
Net loss for the nine months ended June 30, 2010	-	-	-	(4,753,200)	(4,753,200)
Balance at June 30, 2010	56,023,921	$ 56,000	$ 28,110,100	$ (29,949,100)	$ (1,783,000)

For the nine months ended June 30, 2009	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE - September 30, 2008	25,299,547	$ 25,300	$ 17,701,300	$ (16,673,700)	$ 1,052,900
Exercise of $0.01 warrants in June, 2009	1,448,189	1,400	13,000	-	14,400
Issuance of 3,433,333 warrants associated with bridge financings valued at	-	-	1,058,000	-	1,058,000
Stock- based compensation	-	-	644,200	-	644,200
Net loss for the nine months ended June 30, 2009	-	-	-	(4,495,400)	(4,495,400)
Balance at June 30, 2009	26,747,736	$ 26,700	$ 19,416,500	$ (21,169,100)	$ (1,725,900)

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Organization and Nature of Operations

CNS Response, Inc. (the "Company") was incorporated as Strativation, Inc. in Delaware on July 10, 1984. In connection with a merger on March 7, 2007 with CNS Response, Inc., a California corporation, the Company changed its name to its current name and commenced its current operations. The Company utilizes a patented system that guides psychiatrists and other physicians to determine a personalized regimen for patients with mental, behavioral and/or addictive disorders. The Company also intends to identify, develop and commercialize new indications of approved drugs and drug candidates for this patient population.

In addition, as a result of its acquisition of Neuro-Therapy Clinic, Inc. ("NTC") on January 11, 2008, the Company provides behavioral health care services. NTC is a center for highly-advanced testing and treatment of neuropsychiatric problems, including learning, attentional and behavioral challenges, mild head injuries, as well as depression, anxiety, bipolar and all other common psychiatric disorders. Through this acquisition, the Company expects to advance neurophysiology data collection, beta-test planned technological advances in rEEG, advance physician training in rEEG and investigate practice development strategies associated with rEEG.

Going Concern Uncertainty

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the company as a going concern. The Company has a limited operating history and its operations are subject to certain problems, expenses, difficulties, delays, complications, risks and uncertainties frequently encountered in the operation of a new business. These risks include the failure to develop or supply technology or services to meet the demands of the marketplace, the ability to obtain adequate financing on a timely basis, the failure to attract and retain qualified personnel, competition within the industry, government regulation and the general strength of regional and national economies.

To date, the Company has financed its cash requirements primarily from debt and equity financings. It will be necessary for the Company to raise additional funds. The Company's liquidity and capital requirements depend on several factors, including the rate of market acceptance of its services, the future profitability of the Company, the rate of growth of the Company's business and other factors described elsewhere in this Quarterly Report. The Company is currently exploring additional sources of capital but there can be no assurances that any financing arrangement will be available in amounts and on terms acceptable to the Company.

Basis of Presentation

The unaudited condensed consolidated financial statements of CNS Response, Inc. ("CNS," "we," "us," "our" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and include all the accounts of CNS and its wholly owned subsidiaries CNS California and NTC. Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of our financial position as of June 30, 2010 and our operating results, cash flows, and changes in stockholders' equity for the interim periods presented. The September 30, 2009 balance sheet was derived from our audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with our consolidated financial statements and notes for the year ended September 30, 2009 which are included in our current report on Form 10-K, filed with the Securities and Exchange Commission on December 30, 2009.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and revenues and expenses in the financial statements. Examples of estimates subject to possible revision based upon the outcome of future events include, among others, recoverability of long-lived assets and goodwill, stock-based compensation, the allowance for doubtful accounts, the valuation of equity instruments, use and other taxes. Actual results could differ from those estimates.

The results of operations for the nine months ended June 30, 2010 are not necessarily indicative of the results that may be expected for future periods or for the year ending September 30, 2010.

Reclassifications

Certain amounts previously reported have been reclassified to conform to the current period presentation. The reclassifications were made to change the income statement presentation to provide the users of the financial statements additional information related to the operating results of the Company. These reclassifications include reclassifying the Company's patent costs to General and Administrative costs which were previously included in Research and Development costs. The reclassifications had no effect on consolidated net income or consolidated assets and liabilities.

Fair Value of Financial Instruments

ASC 825-10 (formerly SFAS 107, "Disclosures about Fair Value of Financial Instruments") defines financial instruments and requires disclosure of the fair value of financial instruments held by the Company. The Company considers the carrying amount of cash, accounts receivable, other receivables, accounts payable and accrued liabilities, to approximate their fair values because of the short period of time between the origination of such instruments and their expected realization.

The Company also analyzes all financial instruments with features of both liabilities and equity under ASC 480-10 (formerly SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"), ASC 815-10 (formerly SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities") and ASC 815-40 (formerly EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock").

The Company adopted ASC 820-10 (formerly SFAS 157, "Fair Value Measurements") on January 1, 2008. ASC 820-10 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

During the six months ended June 30, 2010, the Company issued a secured promissory convertible note of $250,000. As of June 30, 2010, the carrying value of this convertible note was $62,500, net of discount of $187,500. The Company used level 3 inputs for its valuation methodology and the fair value was determined to be approximately $257,000 using cash flows discounted at relevant market interest rates in effect at the period close since there is no observable market price.

As of June 30, 2010 the Company did not identify any other assets or liabilities that are required to be presented on the balance sheet at fair value in accordance with ASC 820-10.

Recent Accounting Pronouncements

In April 2009, the FASB issued ASC 825-10 (formerly FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments) ("ASC 825") , which requires that the fair value disclosures required for all financial instruments within the scope of SFAS 107, "Disclosures about Fair Value of Financial Instruments", be included in interim financial statements. This FSP also requires entities to disclose the method and significant assumptions used to estimate the fair value of financial instruments on an interim and annual basis and to highlight any changes from prior periods. FSP 107-1 was effective for interim periods ending after June 15, 2009, with early adoption permitted. The adoption of FSP 107-1 did not have a material impact on the Company's unaudited consolidated financial statements.

In May 2009, the FASB issued ASC 855-10 (formerly Statement No. 165, Subsequent Events) ("ASC 855"). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In accordance with this Statement, entities should apply the requirements to interim or annual financial periods ending after June 15, 2009. The adoption of this statement did not have a material impact on the Company's unaudited consolidated financial statements.

In June 2009, the FASB approved its Accounting Standards Codification, or Codification, as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, starting from fiscal year end 2009, all references made to US GAAP will use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it did not have any impact on the Company's unaudited consolidated financial statements.

As a result of the Company's implementation of the Codification during the year ended September 30, 2009, previous references to new accounting standards and literature are no longer applicable. In the current interim financial statements, the Company will provide reference to both new and old guidance to assist in understanding the impact of recently adopted accounting literature, particularly for guidance adopted since the beginning of the current fiscal year but prior to the Codification.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 (ASU 2009-05), "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value." ASU 2009-05 amends Subtopic 820-10, "Fair Value Measurements and Disclosures – Overall," and provides clarification for the fair value measurement of liabilities. ASU 2009-05 is effective for the first reporting period including interim period beginning after issuance. The adoption of ASU 2009-05 did not have a material impact on the Company's unaudited consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU 2010-06), "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements." ASU 2010-06 amends Subtopic 820-10 that requires new disclosures and provides clarification of existing disclosures. ASU 2010-06 also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plans assets (Subtopic 715-20). ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is evaluating the impact of the adoption of ASU 2010-06 on its unaudited consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09 ("ASU 2010-09") as amendments to certain recognition and disclosure requirements. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in ASU 2010-09 were effective upon issuance for interim and annual periods. The adoption of ASU 2010-09 did not have a material impact on the Company's unaudited consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-12 ("ASU 2010-12"), "Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts". After consultation with the FASB, the SEC stated that it "would not object to a registrant incorporating the effects of the Health Care and Education Reconciliation Act of 2010 when accounting for the Patient Protection and Affordable Care Act." The Company does not expect the provisions of ASU 2010-12 to have a material impact on the Company's unaudited consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-13 ("ASU 2010-13"), Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades - a consensus of the FASB Emerging Issues Task Force. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Earlier application is permitted. The Company does not expect the provisions of ASU 2010-13 to have a material impact on the Company's unaudited consolidated financial statements.

2. CONVERTIBLE DEBT AND EQUITY FINANCING

Between March 30 and June 12, 2009 the Company entered into three rounds of bridge financings in the form of secured convertible promissory notes. These three rounds are referred to as:

(a) the March 30, 2009 SAIL/Brandt Notes
(b) the May 14, 2009 SAIL Note
(c) the June 12, 2009 Pappajohn Note

All these notes were converted to equity as a result of a private placement transaction that closed on August 26, 2009, which is fully described in the section below.

The Private Placement Transactions

Completion of First Closing of Private Placement Transaction

On August 26, 2009, the Company received gross proceeds of approximately $2,043,000 in a private placement transaction (the "Private Placement") with six investors. Pursuant to Subscription Agreements entered into with the investors, the Company sold approximately 38 Investment Units at $54,000 per Investment Unit. Each "Investment Unit" consists of 180,000 shares of the Company's common stock and a five year non-callable warrant to purchase 90,000 shares of the Company's common stock at an exercise price of $0.30 per share. After commissions and expenses, the Company received net proceeds of approximately $1,792,300 in the Private Placement. These funds were used to repay outstanding liabilities, fund the Company's recent clinical trial and for general working capital purposes.

A FINRA member firm, the Maxim Group LLC ("Maxim Group"), acted as lead placement agent in connection with the Private Placement. For its services in connection with the first closing of the offering, Maxim Group received (i) a cash fee of $ 55,980, (ii) a cash expense allowance of $40,860, and (iii) a five year non-callable warrant to purchase 274,867 shares of the Company's common stock at an exercise price of $0.33 per share. By agreement dated July 23, 2010, the Company and Maxim Group agreed, among other things, to amend the five year exercise period to begin on the date that the registration statement covering the resale of the shares of common stock issuable upon exercise of the placement agent warrants (among other securities) is declared effective.

A secondary placement agent who participated in the first closing of the private placement received cash fees of $29,200 and five year non-callable warrants to purchase 97,200 shares of the Company's common stock at an exercise price of $ 0.33 per share. The Company has agreed to amend the five year exercise period applicable to these warrants to begin on the effective date of the registration statement, as described above.

Pursuant to a Registration Rights agreement entered into with each investor, the Company agreed to file a registration statement covering the resale of the common stock and the common stock underlying the warrants sold in the Private Placement, as well as the common stock underlying the warrants issued to Maxim Group by the later of October 26, 2009 or the 20th calendar day after the termination of the offering. The Registration Rights agreement was subsequently amended to permit the filing of the registration statement no later that 10 business days following the Company's filing of its Annual Report on Form 10-K for its September 30, 2009 year end, or the 20th calendar day after termination of the private offering. The Registration Statement was filed with the Securities and Exchange Commission (SEC) on February 1, 2010. Amendment No. 1 to the Registration Statement was filed with the SEC on July 6, 2010.

In addition, the Company agreed to use its best efforts to have the registration statement declared effective no later than 180 days following the final closing of the offering, or July 3, 2010, and maintain such effectiveness until the earlier of the second anniversary of the date of such effectiveness or the date that all of the securities covered by the registration statement may be sold without restriction. The registration statement has not yet been declared effective.

Events Relating to Private Placement Transaction

(a) Conversion of the March 30, 2009 SAIL/Brandt Notes

On March 30, 2009, the Company entered into two Senior Secured Convertible Promissory Notes, each in the principal amount of $250,000 (each a "March Note" and, collectively, the "March Notes"), with Brandt Ventures, GP ("Brandt") and SAIL Venture Partners, LP ("SAIL"). Leonard Brandt, a former member of the Company's board of directors, is the general partner of Brandt and David B. Jones, a current member of the Company's board of directors, is a managing member of SAIL Venture Partners, LLC, which is the general partner of SAIL. The terms of the March Notes provided that in the event the Company consummates an equity financing transaction of at least $1,500,000 (excluding any and all other debt that is converted), then the principal and all accrued, but unpaid interest outstanding under the notes shall be automatically converted into the securities issued in the equity financing by dividing such amount by 90% of the per share price paid by the investors in such financing. In accordance with the terms of the March Notes, at the closing of the Private Placement, the Company issued to each of Brandt and SAIL 956,164 shares of common stock and a five year non-callable warrant to purchase 478,082 shares of its common stock at an exercise price of $0.30 per share.

(b) Conversion of the May 14, 2009 SAIL Note

On May 14, 2009, the Company entered into a Bridge Note and Warrant Purchase Agreement (the "SAIL Purchase Agreement") with SAIL. Pursuant to the SAIL Purchase Agreement, on May 14, 2009 SAIL purchased a Secured Promissory Note in the principal amount of $200,000 from the Company (the "May SAIL Note"). In order to induce SAIL to purchase the note, the Company issued to SAIL a warrant to purchase up to 100,000 shares of the Company's common stock at a purchase price equal to $0.25 per share. The warrant expires on May 31, 2016.

The terms of the May SAIL Note provided that in the event the Company consummates an equity financing transaction of at least $1,500,000 (excluding any and all other debt that is converted), then the principal and all accrued, but unpaid interest outstanding under the note shall be automatically converted into the securities issued in the equity financing by dividing such amount by 85% of the per share price paid by the investors in such financing. In accordance with the terms of the May SAIL Note, at the first closing of the Private Placement on August 26, 2009, the Company issued to SAIL 802,192 shares of its common stock and a five year non-callable warrant to purchase 401,096 shares of its common stock at an exercise price of $0.30 per share.

(c) Conversion of the June 12, 2009 Pappajohn Note

On June 12, 2009, John Pappajohn entered into a Bridge Note and Warrant Purchase Agreement (the "Pappajohn Purchase Agreement") with the Company. Pursuant to the Pappajohn Purchase Agreement, Mr. Pappajohn purchased a Secured Convertible Promissory Note in the principal amount of $1,000,000 from the Company. In order to induce Mr. Pappajohn to purchase the note, the Company issued to Mr. Pappajohn a warrant to purchase up to 3,333,333 shares of the Company's common stock at a purchase price equal to $0.30 per share. The warrant expires on June 30, 2016.

The note issued pursuant to the Pappajohn Purchase Agreement provided that the principal amount of $1,000,000 together with a single payment of $90,000 (the "Premium Payment") would be due and payable, unless sooner converted into shares of the Company's common stock (as described below), upon the earlier to occur of: (i) a declaration by Mr. Pappajohn on or after June 30, 2010 or (ii) an Event of Default (as defined in the note). The note was secured by a lien on substantially all of the assets (including all intellectual property) of the Company. In the event of a liquidation, dissolution or winding up of the Company, unless Mr. Pappajohn informed the Company otherwise, the Company was required to pay Mr. Pappajohn an amount equal to the product of 250% multiplied by the then outstanding principal amount of the note and the Premium Payment.

The Pappajohn Purchase Agreement also provided that in the event the Company consummated an equity financing transaction of at least $1,500,000 (excluding any and all other debt that is converted), the then outstanding principal amount of the note (but excluding the Premium Payment, which would be repaid in cash at the time of such equity financing) would be automatically converted into the securities issued in the equity financing by dividing such amount by the per share price paid by the investors in such financing. The note also provided that the securities issued upon conversion of the note would be otherwise issued on the same terms as such shares are issued to the lead investor that purchases shares of the Company in the qualified financing.

On August 26, 2009, at the closing of the Private Placement, the Company paid the Premium Payment to Mr. Pappajohn, and the outstanding principal amount of Mr. Pappajohn's note ($1,000,000 as of August 26, 2009) converted into 3,333,334 shares of the Company's common stock. In addition, in accordance with the terms of his note, Mr. Pappajohn was issued a five year non-callable warrant to purchase 1,666,667 shares of the Company's common stock at an exercise price of $0.30 per share.

Upon the abovementioned conversions, the Company evaluated the terms and calculated the fair value of the common stock (by using the closing market price on the respective original issuance dates of the convertible notes) and warrants (through the use of the Black-Scholes Model) issued upon the conversions and determined that the notes were converted with a beneficial conversion feature amounting to $642,000. As a result, for the year ended September 30, 2009, the Company recorded $642,000 as interest expense.

Completion of Second, Third and Fourth Closings of Private Placement Transaction

On December 24 and 31, 2009 and January 4, 2010, the Company completed a second, third and fourth and final closing of its private placement (the first closing having occurred on August 26, 2009), resulting in additional gross proceeds to the Company of $2,996,000, $432,000 and $108,000 respectively from accredited investors.

Pursuant to Subscription Agreements entered into with the investors, the Company sold approximately 65 Investment Units in the three closings at $54,000 per Investment Unit. Each "Investment Unit" consists of 180,000 shares of the Company's common stock and a five year non-callable warrant to purchase 90,000 shares of the Company's common stock at an exercise price of $0.30 per share.

After commissions and expenses, the Company received net proceeds of approximately $2,650,400 million at the second closing, $380,200 at the third and $95,000 at the fourth and final closing. The Company intends to use the proceeds from these closings of its private placement for general corporate purposes, including clinical trial expenses, research and development expenses, and general and administrative expenses, including the payment of accrued legal expenses incurred in connection with the Company's litigation with Mr. Brandt.

A FINRA member firm, the Maxim Group acted as lead placement agent in connection with the second, third and fourth closings of the private placement. For its services in connection with the second closing, the Maxim Group received (i) a cash fee of $195,200, (ii) a cash expense allowance of $59,920, and (iii) a five year non-callable warrant to purchase 672,267 shares of the Company's common stock at an exercise price of $ 0.33 per share. For the third closing the Maxim Group received (i) a cash fee of $4,300, (ii) a cash expense allowance of $8,600, and (iii) a five year non-callable warrant to purchase 14,400 shares of the Company's common stock at an exercise price of $ 0.33 per share. For the fourth closing the Maxim Group received (i) a cash fee of $1,100, (ii) a cash expense allowance of $2,100, and (iii) a five year non-callable warrant to purchase 3,600 shares of the Company's common stock at an exercise price of $ 0.33 per share. By agreement dated July 23, 2010, the Company and Maxim Group agreed, among other things, to amend the five year exercise period applicable to the placement agent warrants in the second, third and fourth closings of the private placement to begin on the date that the registration statement covering the resale of the shares of common stock issuable upon exercise of the placement agent warrants (among other securities) is declared effective.

Secondary placement agents who participated in the second closing of the private placement received cash fees of $75,200 and five year non-callable warrants to purchase 250,800 shares of the Company's common stock at an exercise price of $ 0.33 per share. For the third closing, the secondary placement agents received cash fees of $38,900 and five year non-callable warrants to purchase 129,600 shares of the Company's common stock at an exercise price of $ 0.33 per share. For the fourth closing, the secondary placement agents received cash fees of $9,700 and five year non-callable warrants to purchase 32,400 shares of the Company's common stock at an exercise price of $ 0.33 per share. The Company has agreed to amend the five year exercise period applicable to these warrants to begin on the effective date of the registration statement, as described above.

In connection with the second, third and fourth closing of the Company's private placement, each investor who participated in the financing became party to the abovementioned Registration Rights agreement, which was filed with the Securities and Exchange Commission on February 1, 2010, and received the same rights and benefits as the investors in the first closing of the Company's Private Placement on August 26, 2009.

2010 Promissory Note Transactions

On June 3, 2010, we entered into a Bridge Note and Warrant Purchase Agreement with John Pappajohn to purchase two secured promissory notes (each, a "Bridge Note") in the aggregate principal amount of $500,000, with each Bridge Note in the principal amount of $250,000 maturing on December 2, 2010. On June 3, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the first Bridge Note (there were no warrants issued in connection with this first note) and on July 25, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the second Bridge Note. In connection with his purchase of the second Bridge Note, Mr. Pappajohn received a warrant to purchase up to 250,000 shares of our common stock. The exercise price of the warrant (subject to customary anti-dilution adjustments) is $0.50 per share.

Pursuant to a separate agreement that we entered into with Mr. Pappajohn on July 25, 2010, we have granted him a right to convert his Bridge Notes into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30. We have also agreed to enter into a registration rights agreement covering the securities issuable upon exercise of the warrant and conversion of the Bridge Notes. The beneficial conversion feature of the June 3, 2010 Bridge Note was valued at $225,000 which is amortized over the six-month period of the note. The Bridge Note is shown as a secured convertible promissory note net of the unamortized discount of $187,500.

Each Bridge Note accrues interest at a rate of 9% per annum which will be paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the Bridge Note at the option of the Company (iii) closing of a financing in which the aggregate proceeds to the Company are not less than $3,000,000 or (iv) the occurrence of an Event of Default (as defined in the Bridge Note). The Purchase Agreement and each Bridge Note grants the investor a senior security interest in and to all of the Company's existing and future right, title and interest in its tangible and intangible property.

3. STOCKHOLDERS' EQUITY

Common and Preferred Stock

As of June 30, 2010 the Company is authorized to issue 750,000,000 shares of common stock.

As of June 30, 2010, CNS California is authorized to issue 100,000,000 shares of two classes of stock, 80,000,000 of which was designated as common shares and 20,000,000 of which was designated as preferred shares.

As of June 30, 2010, Colorado CNS Response, Inc. is authorized to issue 1,000,000 shares of common stock.

As of June 30, 2010, Neuro-Therapy Clinic, Inc., a wholly-owned subsidiary of Colorado CNS Response, Inc., is authorized to issue ten thousand (10,000) shares of common stock, no par value per share.

Stock-Option Plan

On August 3, 2006, CNS California adopted the CNS California 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan provides for the issuance of awards in the form of restricted shares, stock options (which may constitute incentive stock options (ISO) or non-statutory stock options (NSO), stock appreciation rights and stock unit grants to eligible employees, directors and consultants and is administered by the board of directors. A total of 10 million shares of stock were initially reserved for issuance under the 2006 Plan.

The 2006 Plan initially provided that in any calendar year, no eligible employee or director shall be granted an award to purchase more than 3 million shares of stock. The option price for each share of stock subject to an option shall be (i) no less than the fair market value of a share of stock on the date the option is granted, if the option is an ISO, or (ii) no less than 85% of the fair market value of the stock on the date the option is granted, if the option is a NSO; provided, however, if the option is an ISO granted to an eligible employee who is a 10% shareholder, the option price for each share of stock subject to such ISO shall be no less than 110% of the fair market value of a share of stock on the date such ISO is granted. Stock options have a maximum term of ten years from the date of grant, except for ISOs granted to an eligible employee who is a 10% shareholder, in which case the maximum term is five years from the date of grant. ISOs may be granted only to eligible employees. The Company has adopted ASC 718-20 (formerly, SFAS No. 123R-revised 2004, "Share-Based Payment"), and related interpretations. Under ASC 718-20, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The Company estimates the fair value of each option on the grant date using the Black-Scholes model.

On March 3, 2010, the Board of Directors approved an amendment to the 2006 Plan which increased the number of shares reserved for issuance under the 2006 Plan from 10 million to 20 million shares of stock. The amendment also increased the limit on shares issued within a calendar year to any eligible employee or director from 3 million to 4 million shares of stock. The amendment was approved by shareholders at the annual meeting held on April 27, 2010.

On March 3, 2010, the Board of Directors also approved the grant of 9,150,000 options to staff members, directors, advisors and consultants, of which 8,650,000 were in fact granted. For staff members the options will vest equally over a 48 month period while for directors, advisors and consultants the options will vest equally over a 36 month period. The effective grant date for accredited investors was March 3, 2010 and the exercise price of $0.55 per share was based on the quoted closing share price of the Company's stock at the time of grant. For non-accredited investors the grant date will be determined after obtaining a permit from the State of California allowing the granting of options to non-accredited investors. This permit was granted by the State of California in July 2010.

As of June 30, 2010, 2,124,740 options were exercised and there were 14,870,973 options and 183,937 restricted shares outstanding under the amended 2006 Plan leaving 2,820,350 shares available for issuance of future awards.

Stock-based compensation expense is recognized over the employees' or service provider's requisite service period, generally the vesting period of the award. Stock-based compensation expense included in the accompanying statements of operations for the periods ended June 30, 2010 and 2009 is as follows:

	For the three months ended June 30,	
	2010	2009
Cost of laboratory services revenues	$ 6,600	$ 4,000
Research and development	107,000	65,200
Sales and marketing	58,700	27,000
General and administrative	267,200	106,500
Total	$ 439,500	$ 202,700

	For the nine months ended June 30,	
	2010	2009
Cost of laboratory services revenues	$ 15,500	$ 12,100
Research and development	250,700	195,600
Sales and marketing	123,900	107,000
General and administrative	469,800	329,500
Total	$ 859,900	$ 644,200

Total unrecognized compensation expense as of June 30, 2010 amounted to $4,640,200

A summary of stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 30, 2009	6,662,014	$ 0.76
Granted	-	$ -
Exercised	-	-
Forfeited	(191,041)	$ 1.14
Outstanding at December 31, 2009	6,470,973	$ 0.74
Granted	8,650,000	$ 0.55
Exercised	-	-
Forfeited	(250,000)	0.55
Outstanding at March 31, 2010	14,870,973	$ 0.63
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at June 30, 2010	14,870,973	$ 0.63
Weighted average fair value of options granted during:		
Three months ended June 30, 2010		-
Nine months ended June 30, 2010		$ 0.55

The following is a summary of the status of options outstanding at June 30, 2010:

Exercise Price	Number of Shares	Weighted Average Contractual Life	Weighted Average Exercise Price
$0.12	859,270	10 years	$ 0.12
$0.132	987,805	7 years	$ 0.132
$0.30	135,700	10 years	$ 0.30
$0.59	28,588	10 years	$ 0.59
$0.80	140,000	10 years	$ 0.80
$0.89	968,875	10 years	$ 0.89
$0.96	496,746	10 years	$ 0.96
$1.09	2,513,549	10 years	$ 1.09
$1.20	243,253	5 years	$ 1.20
$0.51	41,187	10 years	$ 0.51
$0.40	56,000	10 years	$ 0.40
$0.55	8,400,000	10 years	$ 0.55
Total	14,870,973		$ 0.63

Warrants to Purchase Common Stock

At September 30, 2008, there were warrants outstanding to purchase 6,899,353 shares of the Company's common stock at exercise prices ranging from $0.01 to $1.812 with a weighted average exercise price of $1.04. The warrants expire at various times through 2017.

During the year ended September 30, 2009, 1,498,986 warrants with an exercise price of $0.01 were exercised.

During the year ended September 30, 2009, the following additional 10,137,118 warrants were granted as follows:

Warrants to Purchase	Exercise Price	Issued in Connection With:
100,000 shares	$ 0.25	A $200,000 bridge note with SAIL on May 14, 2009 as described in Note 2
3,333,333 shares	$ 0.30	A $1,000,000 bridge note with Pappajohn on June 12, 2009 as described in Note 2
3,404,991 shares	$ 0.30	Associated with the August 26, 2009 private placement transaction of 6,810,002 shares at $0.30 with 50% warrant coverage as described in Note 2
3,023,927 shares	$ 0.30	Associated with the automatic conversion of $1,700,000 of convertible promissory notes and $20,900 accrued interest upon completion an equity financing in excess of $1,500,000 as described in Note 2
274,867 shares	$ 0.33	The placement agent for private placement as described in Note 2

At September 30, 2009, there were warrants outstanding to purchase 15,537,485 shares. During the nine months ended June 30, 2010, a further 7,093,601 warrants were granted and 3,333,333 warrants were exercised as follows:

5,893,334 shares	$	0.30	Associated with the second, third and fourth closing of the private placement transaction of 11,786,667 shares at $0.30 with 50% warrant coverage as described in Note 2
1,200,267 shares	$	0.33	Associated with warrants for the lead and secondary placement agents for private placement as described in Note 2
(3,333,333) shares	$	0.30	These warrants were surrendered in a net issue exercise and 2,456,126 shares were issued in lieu of cash.

At June 30, 2010, there were warrants outstanding to purchase 19,297,753 shares of the Company's common stock at exercise prices ranging from $0.01 to $1.812 with a weighted average exercise price of $0.59. The warrants expire at various times through 2017.

4. RELATED PARTY TRANSACTIONS

As at June 30, 2010 accounts payable included the following: $18,000 of accrued fees due to a director in accordance with a consulting agreement. During the nine months ended June 30, 2010 a payment of $24,000 was made to a director for consulting services per an agreement and $36,000 was paid, with board approval, to a family member of the Company's Chief Executive Officer, who provided data discovery consulting services in support of the Company's litigation with Mr. Brandt.

On June 3, 2010, we entered into a Bridge Note and Warrant Purchase Agreement with John Pappajohn to purchase two secured promissory notes in the aggregate principal amount of $500,000. For further detail, please refer to the section *2010 Promissory Note Transactions* in Note 2 above.

5. LONG-TERM DEBT

During the year ended September 30, 2008 the Company issued a note payable to an officer in connection with the acquisition of NTC. The note is non-interest bearing and the Company determined its fair value by imputing interest at an annual rate of 8%. As of June 30, 2010 and September 30, 2009 the note has an outstanding principal balance in the amount of $48,900 and $118,600 respectively. The entire balance is current as of June 30, 2010.

6. REPORTABLE SEGMENTS

The Company operates in two business segments: Laboratory Information Services and Clinic. Laboratory Information Services provide reports ("rEEG Reports") that assist physicians with treatment strategies for patients with behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. Clinic operates NTC, a full service psychiatric practice.

The following tables show operating results for the Company's reportable segments, along with reconciliation from segment gross profit to (loss) from operations, the most directly comparable measure in accordance with generally accepted accounting principles in the United States, or GAAP:

	Three Months ended June 30, 2010			
	Laboratory Information Services	Clinic	Eliminations	Total
Revenues	45,300	119,300	(5,400)	159,200
Operating expenses:				
Cost of revenues	32,800	5,400	(5,400)	32,800
Research and development	302,400	-		302,400
Sales and marketing	187,500	14,100	-	201,600
General and administrative	899,600	182,100	-	1,081,700
Total operating expenses	1,422,300	201,600	(5,400)	1,618,500
Income (Loss) from operations	(1,377,000)	(82,300)	-	(1,459,300)

	Three Months ended June 30, 2009			
	Laboratory Information Services	Clinic	Eliminations	Total
Revenues	$ 32,000	$ 133,700	$ (5,300)	$ 160,400
Operating expenses:				
Cost of revenues	30,700	5,300	(5,300)	30,700
Research and development	480,800	-	-	480,800
Sales and marketing	159,600	1,700	-	161,300
General and administrative	683,100	184,400	-	867,500
Total operating expenses	$ 1,354,200	$ 191,400	$ (5,300)	$ 1,540,300
Income (Loss) from operations	$ (1,322,200)	$ (57,700)	$ -	$ (1,379,900)

	Nine Months ended June 30, 2010			
	Laboratory Information Services	Clinic	Eliminations	Total
Revenues	112,100	417,600	(48,700)	481,000
Operating expenses:				
Cost of revenues	101,900	15,400	(15,400)	101,900
Research and development	843,600	-	-	843,600
Sales and marketing	587,800	16,000	-	603,800
General and administrative	3,150,900	522,300	(33,300)	3,639,900
Total operating expenses	4,684,200	553,700	(48,700)	5,189,200
Income (Loss) from operations	(4,572,200)	(136,100)	-	(4,708,200)

	Nine Months ended June 30, 2009			
	Laboratory Information Services	Clinic	Eliminations	Total
Revenues	$ 98,800	$ 463,400	$ (34,000)	$ 528,200
Operating expenses:				
Cost of revenues	99,800	12,500	(12,500)	99,800
Research and development	1,628,500	-	-	1,628,500
Sales and marketing	702,500	5,600	-	708,100
General and administrative	1,879,800	501,800	(21,500)	2,360,100
Total operating expenses	$ 4,310,600	$ 519,900	$ (34,000)	$ 4,796,500
Income (Loss) from operations	$ (4,211,800)	$ (56,500)	$ -	$ (4,268,300)

The following table includes selected segment financial information as of June 30, 2010, related to goodwill and total assets:

	Laboratory Information Services	Clinic	Total
Goodwill	$ -	$ -	$ -
Total assets	$ 181,200	$ 53,700	$ 234,900

7. EARNINGS PER SHARE

In accordance with ASC 260-10 (formerly SFAS 128, "Computation of Earnings Per Share"), basic net income (loss) per share is computed by dividing the net income (loss) to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. For the three months and nine months ended June 30, 2010 and 2009, the Company has excluded all common equivalent shares from the calculation of diluted net loss per share as such securities are anti-dilutive.

A summary of the net income (loss) and shares used to compute net income (loss) per share for the three months and nine months ended June 30, 2010 and 2009 are as follows:

	For the Three Months ended June 30,	
	2010	2009
Net loss for computation of basic net loss per share	$ (1,500,200)	$ (1,600,500)
Net loss for computation of dilutive net loss per share	$ (1,500,200)	$ (1,600,500)
Basic net loss per share	$ (0.03)	$ (0.06)
Diluted net loss per share	$ (0.03)	$ (0.06)
Basic weighted average shares outstanding	56,023,921	25,782,277
Dilutive common equivalent shares	-	-
Diluted weighted average common shares	56,023,921	25,782,277

	For the Nine Months ended June 30,	
	2010	2009
Net loss for computation of basic net loss per share	$ (4,753,200)	$ (4,495,400)
Net loss for computation of dilutive net loss per share	$ (4,753,200)	$ (4,495,400)
Basic net loss per share	$ (0.09)	$ (0.18)
Diluted net loss per share	$ (0.09)	$ (0.18)
Basic weighted average shares outstanding	51,028,185	25,460,457
Dilutive common equivalent shares	-	-
Diluted weighted average common shares	51,028,185	25,460,457

Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:

	For the Three Months ended June 30,	
	2010	2009
Convertible Debt	150,000	-
Warrants	19,297,753	7,594,401
Options	14,870,973	8,869,545

	For the Nine Months ended June 30,	
	2010	2009
Convertible Debt	50,000	-
Warrants	18,904,516	7,131,036
Options	9,781,463	8,885,551

8. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

From time to time, we may be involved in litigation relating to claims arising out of our operations in the ordinary course of business. Other than as set forth below, we are not currently party to any legal proceedings, the adverse outcome of which, in our management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations or financial position.

Since June of 2009, we have been involved in litigation against Leonard J. Brandt, a stockholder, former director and our former Chief Executive Officer ("Brandt") in the Delaware Chancery Court and the United States District Court for the Central District of California. At the conclusion of a two-day trial that commenced December 1, 2009, the Chancery Court entered judgment for the Company and dismissed with prejudice Brandt's action brought pursuant to Section 225 of the Delaware General Corporation Law, which sought to oust the incumbent directors other than Brandt. The Chancery Court thereby found that the purported special meeting of stockholders convened by Brandt on September 4, 2009 was not valid and that the directors purportedly elected at that meeting are not entitled to be seated. On January 4, 2010, Brandt filed an appeal with the Supreme Court of the State of Delaware in relation to the case. On April 20, 2010, the Delaware Supreme Court affirmed the ruling of the Chancery Court.

The Chancery Court also denied an injunction sought by Mr. Brandt to prevent the voting of shares issued by the Company in connection with our bridge financing in June 2009, and securities offering in August 2009, and dismissed Brandt's claims regarding those financings and stock issuances. On January 4, 2010, Brandt also filed an appeal in relation to this ruling with the Delaware Supreme Court which, on April 20, 2010, affirmed the ruling of the Chancery Court.

The Chancery Court also dismissed with prejudice another action brought by Mr. Brandt, in which he claimed he had not been provided with information owed to him.

In July 2009, we filed an action in the United States District Court for the Central District of California against Mr. Brandt and certain others. Our complaint alleged a variety of violations of federal securities laws, including anti-fraud based claims under Rule 14a-9, solicitation of proxies in violation of the filing and disclosure dissemination requirements of Regulation 14A, and material misstatements and omissions in and failures to promptly file amendments to Schedule 13D. Mr. Brandt and the other defendants filed counterclaims against us, alleging violations of federal securities laws relating to alleged actions and statements taken or made by us or our officers and directors in connection with Mr. Brandt's proxy and consent solicitations. On March 10, 2010, we dismissed the Company's claims against EAC, and EAC dismissed its claims against us and Mr. Carpenter. On April 10, 2010, Mr. Brandt's attorneys moved to withdraw from representing Mr. Brandt in the case. On July 7, 2010, Mr. Brandt moved to dismiss his counterclaims against the Company and the Company consented to dismiss its complaint against Mr. Brandt. On July 13, 2010, all of the Company's claims and Mr. Brandt's counterclaims in such action were dismissed. This resolved all pending actions between the Company and Mr. Brandt.

We have expended substantial resources to pursue the defense of legal proceedings initiated by Mr. Brandt. We do not know whether Mr. Brandt will institute new claims against us and the defense of any such claims could involve the expenditure of additional resources by the Company.

Lease Commitments

The Company leased its headquarters and Laboratory Information Services space under an operating lease which terminated on November 30, 2009. The Company continued to lease the space on a month-to-month basis through January 22, 2010 at which time the Company moved to its new premises.

On December 30, 2009 the Company entered a three year lease, commencing February 1, 2010 and terminating on January 30, 2013 for its new Headquarters and Laboratory Information Services business premises located at 85 Enterprise, Aliso Viejo, California 92656. The 2,023 square foot facility has an average cost for the lease term of $3,600 per month.

The Company leases space for its Clinical Services operations under an operating lease. The base rental as of December 31, 2009 was $6,000 per month. This lease terminated on February 28, 2010 and a 37 month extension to the lease was negotiated commencing April 1, 2010 and terminating April 30, 2013. The 3,542 square foot facility has an average cost for the lease term of $5,100 per month.

The Company also sub-leased space for its Clinical Services operations on a month-to-month basis for $1,000 per month up until March 2010 when it terminated this sub-lease and gave up the space.

The Company leases a copier for $200 per month which it accounts for as a capital lease with an interest rate of 9% per year. The lease terminates in February 2013, at which time the copier can be purchased at fair value.

The Company incurred rent expense of $19,600 and $38,500 for the three months ended June 30, 2010 and 2009 and $83,000 and $108,400 for the nine months ended June 30, 2010 and 2009

9. SUBSEQUENT EVENTS

Events subsequent to June 30, 2010 have been evaluated through the date these financial statements were issued, to determine whether they should be disclosed to keep the financial statements from being misleading. The following events have occurred since June 30, 2010.

Publication of our results

On July 3, 2010, a paper with the results of our study, which had been peer-reviewed by the Journal of Psychiatric Research, was published on-line at its website while awaiting hard-copy publication. The study, the largest in our history, was a randomized, single blinded, controlled, parallel group, multicenter study. The patients in the study experienced depression treatment failure of one or more selective serotonin reuptake inhibitors (SSRIs) and/or had failure with at least two classes of antidepressants. The patients fell into two groups: 1) those treated with rEEG medication guidance, and 2) those treated with the modified STAR*D treatment algorithm. The 12-week study, which included 114 patients at 12 medical sites, including Harvard, Stanford, Cornell, UCI and Rush, found that rEEG significantly outperformed the modified STAR*D treatment algorithm. The difference, or separation, between rEEG and the control group was 50 and 100 percent for the study's two primary endpoints. Typically, separation between a new treatment and a control group is less than 10 percent in antidepressant studies.

Secured Convertible Debt Financings

On July 5, 2010, we issued two unsecured promissory notes (each, a "Deerwood Note") in the aggregate principal amount of $250,000 to Deerwood Partners LLC and Deerwood Holdings LLC, with each investor purchasing a note in the aggregate principal amount of $125,000. The Deerwood Notes mature on December 15, 2010. We received $250,000 in gross proceeds from the issuance of these notes. SAIL Venture Partners L.P. ("SAIL"), of which our director David Jones is a managing partner, issued an unconditional guaranty to each of these investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under each Deerwood Note. We have agreed to indemnify SAIL and grant to SAIL a security interest in our assets in connection with the guaranties.

Each Deerwood Note accrues interest at a rate of 9% per annum which will be paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the Deerwood Note at our option (iii) closing of a financing in which the aggregate proceeds to us are not less than $3,000,000 or (iv) the occurrence of an Event of Default (as defined in the Deerwood Note). In addition, pursuant to a separate agreement that we entered into with each of the Deerwood investors, each investor will have the right to convert its note into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30.

The managing members of each of Deerwood Partners LLC and Deerwood Holdings LLC are George J. Kallins, M.D., who joined the Company's Board of Directors on July 5, 2010, and his spouse Bettina Kallins.

On June 3, 2010, we had entered into a Bridge Note and Warrant Purchase Agreement with John Pappajohn, pursuant to which Mr. Pappajohn agreed to purchase two secured promissory notes (each, a "Bridge Note") in the aggregate principal amount of $500,000, with each Bridge Note in the principal amount of $250,000 maturing on December 2, 2010. On June 3, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the first Bridge Note (there were no warrants issued in connection with this first note) and on July 25, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the second Bridge Note. In connection with his purchase of the second Bridge Note, Mr. Pappajohn received a warrant to purchase up to 250,000 shares of our common stock in accordance with the Bridge Note and Warrant Purchase Agreement. The exercise price of the warrant (subject to customary anti-dilution adjustments) is $0.50 per share.

Pursuant to a separate agreement that we entered into with Mr. Pappajohn on July 25, 2010, we have granted him a right to convert his Bridge Notes into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30. We have also agreed to enter into a registration rights agreement covering the securities issuable upon exercise of the warrant and on conversion of the Bridge Notes.

Each Bridge Note accrues interest at a rate of 9% per annum which will be paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the Bridge Note at the option of the Company (iii) closing of a financing in which the aggregate proceeds to the Company are not less than $3,000,000 or (iv) the occurrence of an Event of Default (as defined in the Bridge Note). The Purchase Agreement and each Bridge Note grants the investor a senior security interest in and to all of the Company's existing and future right, title and interest in its tangible and intangible property.

Grant of Warrants and Options to purchase common stock

On July 5, 2010, the Board of Directors granted warrants to purchase 500,000 shares of common stock to Mr. Brian Thompson for consulting services he had rendered to the Company, advising on and assisting with fund raising activities. Mr. Thompson is an employee of Equity Dynamics, Inc., a company owned by Mr. Pappajohn. These warrants have an exercise price of $0.30 cents per share, are exercisable from the date of grant and have a term of 10 years from the date of grant. At the same meeting, the Board also approved the grant of 800,000 options in total to a new member of management, Michael Darkoch, EVP and Chief Marketing Officer, a new director, Dr. Kallins, and a new advisor to the Company. The options have an exercise price of $0.40 and a term of 10 years. In the case of Mr. Darkoch, the options, the grant of which took effect upon commencement of his employment on July 6, 2010, vest evenly over a period of 48 months. The options for Dr. Kallins and the advisor vest evenly over a 36 month period.

Letter from the FDA

On July 27, 2010, we received a letter from the FDA division that was reviewing our 510(k) submission. This letter informed us that the FDA had determined that our rEEG service was not substantially equivalent ("NSE") to the predicate devices that had been granted 510(k) clearance. The FDA concluded that the rEEG service had new indications for use, which alters the diagnostic effect and impacts safety and effectiveness. Consequently, the FDA suggests that the rEEG service is a class III device which requires an approved premarket approval application (PMA) before it can be marketed legally, unless it is otherwise reclassified. A statement of classification as a class III device is standard procedure for any 510(k) submission that receives an NSE letter, and does not represent a final FDA action classifying the product into class III.

We currently plan to continue marketing as a non-device laboratory information service, while continuing to discuss alternative approaches with the FDA. Alternative approaches, which are not mutually exclusive, may consist of (1) filing a request for reconsideration of the NSE letter and/or (2) submitting a new 510(k) with revised claims for rEEG and/or additional information about the predicate devices. There is some risk that the FDA will seek to take enforcement action against rEEG based upon the agency's position that rEEG is a medical device if we continue to market our service. The Company and its advisors continue to believe that the Company's activities consist of medication sensitivity reference testing, as is performed by commercial laboratories and clinical review organizations, which is not subject to regulation by the FDA.

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

The information contained in this Form 10-Q is intended to update the information contained in our Annual Report on Form 10-K for the year ended September 30, 2009 and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis or Plan of Operation" and other information contained in such Form 10-K. The following discussion and analysis also should be read together with our consolidated financial statements and the notes to the consolidated financial statements included elsewhere in this Form 10-Q.

This discussion summarizes the significant factors affecting the condensed consolidated operating results, financial condition and liquidity and cash flows of CNS Response, Inc. for the three and nine months ended June 30, 2010 and 2009. Except for historical information, the matters discussed in this management's discussion and analysis or plan of operation and elsewhere in this Quarterly Report on Form 10-Q, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new products or services; our statements concerning litigation or other matters; statements concerning projections, predictions, expectations, estimates or forecasts for our business, financial and operating results and future economic performance; statements of management's goals and objectives; trends affecting our financial condition, results of operations or future prospects; our financing plans or growth strategies; and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, that performance or those results will be achieved. Forward-looking statements are based on information available at the time they are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause these differences include, but are not limited to:

- *our inability to raise additional funds to support operations and capital expenditures;*
- *our inability to achieve greater and broader market acceptance of our products and services in existing and new market segments;*
- *our inability to successfully compete against existing and future competitors;*
- *our inability to manage and maintain the growth of our business;*
- *our inability to protect our intellectual property rights; and*
- *other factors discussed under the headings "Risk Factors" and "Business" in our Annual Report on Form 10-K and this Quarterly Report on Form 10-Q.*

Forward-looking statements speak only as of the date they are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Overview

We are a life sciences company with two distinct business segments. Our Laboratory Information Services business operated by CNS California, which we consider our primary business, is focused on the commercialization of a patented system that guides psychiatrists and other physicians in determining a proper treatment for patients with behavioral (psychiatric and/or addictive) disorders. Our Clinical Services business operated by Neuro-Therapy Clinic ("NTC"), is a full service psychiatric clinic.

Laboratory Information Services

Traditionally, prescription of medication for the treatment of behavioral disorders (such as depression, bipolar disorders, eating disorders, addiction, anxiety disorders, ADHD and schizophrenia) has been primarily based on symptomatic factors, while the underlying physiology and pathology of the disorder can rarely be analyzed, often resulting in multiple ineffective, costly, and often lengthy, courses of treatment before effective medications are identified. Some patients never find effective medications.

We believe that our technology offers an improvement upon traditional methods for determining a course of medication for patients suffering from non-psychotic behavioral disorders because our technology is designed to correlate the success of courses of medication with the neurophysiological characteristics of a particular patient. Our technology provides medical professionals with medication sensitivity data for a subject patient based upon the identification and correlation of treatment outcome information from other patients with similar neurophysiologic characteristics. This treatment outcome information is contained in a proprietary outcomes database that consists of over 17,000 medication trials for patients with psychiatric or addictive problems (the "*CNS Database*"). For each patient in the CNS Database, we have compiled electroencephalographic ("*EEG*") scans, symptoms and outcomes often across multiple treatments from multiple psychiatrists and physicians. This patented technology, called "Referenced-EEG®" or "rEEG®", represents an innovative approach to identifying effective medications for patients suffering from debilitating behavioral disorders.

With rEEG®, physicians order a digital EEG for a patient, which is then evaluated with reference to the CNS Database. By providing this reference correlation, an attending physician can choose a treatment strategy with the knowledge of how other patients having similar brain function have previously responded to a myriad of treatment alternatives. Analysis of this complete data set yielded a platform of 74 quantitative biomarkers that have shown utility in characterizing patient response to diverse medications. This platform then allows a new patient to be characterized, based on these 74 biomarkers, and the database to be queried to understand the statistical probability of how patients with similar brain patterns have previously responded to the medications currently in the database. This technology allows us to create and provide simple reports ("*rEEG Reports*") to the prescriber that summarizes historical treatment success of specific medications for those patients with similar brain patterns. It provides neither a diagnosis nor specific treatment, but like all lab results, objective, evidenced-based information to help the prescriber in their decision-making.

Our Laboratory Information Services business is focused on increasing the demand for our rEEG Reports. We believe the key factors that will drive broader adoption of our rEEG Reports will be acceptance by healthcare providers and patients of their benefit, demonstration of the cost-effectiveness of using our technology, reimbursement by third-party payers, expansion of our sales force and increased marketing efforts.

In addition to its utility in providing psychiatrists and other physicians/prescribers with medication sensitivity guidance, rEEG provides us with significant opportunities in the area of pharmaceutical development. rEEG, in combination with the information contained in the CNS Database, has the potential to be able to identify novel uses for neuropsychiatric medications currently on the market and in late stages of clinical development, as well as aid in the identification of neurophysiologic characteristics of clinical subjects that may be successfully treated with neuropsychiatric medications in the clinical testing stage. We intend to enter into relationships with established drug and biotechnology companies to further explore these opportunities, although no relationships are currently contemplated. The development of biomarkers as the new method for identifying the correct patient population to research is being encouraged by both The National Institute of Mental Health (NIMH) and The Food and Drug Administration (FDA).

Clinical Services

In January 2008, we acquired our then-largest customer, the Neuro-Therapy Clinic, Inc. Upon the completion of the transaction, NTC became a wholly-owned subsidiary of ours. NTC operates one of the largest psychiatric medication management practices in the state of Colorado, with six full time and four part time employees including psychiatrists and clinical nurse specialists with prescribing privileges. Daniel A. Hoffman, M.D. is the medical director at NTC, and, after the acquisition, became our Chief Medical Officer and more recently, our President.

NTC, having performed a significant number of rEEGs, serves as an important resource in our product development, the expansion of our CNS Database, production system development and implementation, along with the integration of our rEEG services into a medical practice. Through NTC, we also expect to develop marketing and patient acquisition strategies for our Laboratory Information Services business. Specifically, NTC is learning how to best communicate the advantages of rEEG to patients and referring physicians in the local market. We will share this knowledge and developed communication programs learned through NTC with other physicians using our services, which we believe will help drive market acceptance of our services. In addition, we plan to use NTC to train practitioners across the country in the uses of rEEG technology.

We view our Clinical Services business as secondary to our Laboratory Information Services business, and we have no current plans to expand this business.

Business operations

Since our inception, we have generated significant net losses. As of June 30, 2010, we had an accumulated deficit of $29.9 million. We incurred operating losses of $4.71 million and $4.27 million for the nine months ended June 30, 2010 and 2009, respectively. We expect our net losses to continue for at least the next couple of years.

As of June 30, 2010, our current liabilities of approximately $2.0 million exceeded our current assets of approximately $0.2 million and our net losses will continue for the foreseeable future. We will need substantial additional funds immediately to continue our operations and substantial additional funds before we can increase demand for our rEEG services. We are currently exploring additional sources of capital; however, we do not know whether additional funding will be available on acceptable terms, or at all, especially given the economic conditions that currently prevail. In addition, any additional equity funding may result in significant dilution to existing stockholders, and, if we incur additional debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. If adequate funds are not available, we may be required to delay or curtail significantly our development and commercialization activities. This would have a material adverse effect on our business, financial condition and/or results of operations, and could ultimately cause us to have to cease operations.

We anticipate that a substantial portion of our capital resources and efforts will be focused on research and development, scale up of our commercial organization, and other general corporate purposes, including the payment of legal fees associated with our litigation. Research and development projects include the completion of more clinical trials which are necessary to further validate the efficacy of our products and services relating to our rEEG technology across different type of behavioral disorders, the enhancement of the CNS Database and, to a lesser extent, the identification of new medications that are often combinations of approved drugs. We anticipate that future research and development projects will be funded by grants or third-party sponsorship.

Recent Events

The Private Placement Transactions

2009 Private Placement Transactions

On August 26, 2009, we received gross proceeds of approximately $2,043,000 in the first closing of our private placement transaction with six investors. Pursuant to Subscription Agreements entered into with the investors, we sold approximately 38 Investment Units at $54,000 per Investment Unit. Each “Investment Unit” consists of 180,000 shares of our common stock and a five year non-callable warrant to purchase 90,000 shares of our common stock at an exercise price of $0.30 per share. After commissions and expenses, we received net proceeds of approximately $1,792,300 upon the first closing of our private placement. On December 24, 2009, we had a second closing of our private placement in which we received additional gross proceeds of approximately $2,996,000 from 24 investors. At the second closing, we sold approximately 55 Investment Units on the same terms and conditions as the Investment Units sold at the first closing. After commissions and expenses, we received net proceeds of approximately $2,650,400 in connection with this second closing of our private placement. On December 31, 2009, we had a third closing of our private placement in which we received additional gross proceeds of approximately $432,000 from five investors. At the third closing, we sold 8 Investment Units on the same terms and conditions as the Investment Units sold at the first closing. After commissions and expenses, we received net proceeds of approximately $380,200 in connection with this third closing of our private placement. On January 4, 2010, the Company completed its fourth and final closing of its private placement, resulting in additional gross proceeds to the Company of $108,000 from two investors. At this fourth closing, we sold 2 Investment Units on the same terms and conditions as the Investment Units sold at the first closing. After commissions and expenses, we received net proceeds of approximately $95,000 in connection with this final closing of our private placement. These private placement transactions are described in further detail in Note 2 to the unaudited condensed consolidated financial statements.

Prior to our private placement, we raised aggregate proceeds of $1,700,000 in fiscal year 2009 through the issuance of secured convertible promissory notes on each of March 30, May 14, and June 12, 2009. Upon the first closing of our private placement on August 26, 2009, these notes were converted into shares of our common stock, as more fully described in Note 2 of the unaudited condensed consolidated financial statements.

2010 Private Placement Transactions

On June 3, 2010, we entered into a Bridge Note and Warrant Purchase Agreement with John Pappajohn to purchase two secured promissory notes (each, a "Bridge Note") in the aggregate principal amount of $500,000, with each Bridge Note in the principal amount of $250,000 maturing on December 2, 2010. On June 3, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the first Bridge Note (there were no warrants issued in connection with this first note) and on July 25, 2010, Mr. Pappajohn loaned us $250,000 in exchange for the second Bridge Note. In connection with his purchase of the second Bridge Note, Mr. Pappajohn received a warrant to purchase up to 250,000 shares of our common stock. The exercise price of the warrant (subject to customary anti-dilution adjustments) is $0.50 per share.

Pursuant to a separate agreement that we entered into with Mr. Pappajohn on July 25, 2010, we have granted him a right to convert his Bridge Notes into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30. We have also agreed to enter into a registration rights agreement covering the securities issuable upon exercise of the warrant and conversion of the Bridge Notes. The Bridge Notes are described in further detail in Note 2 to the unaudited condensed consolidated financial statements.

Matters Involving our Former Chief Executive Officer and Former Director, Leonard Brandt

On April 10, 2009, our Board of Directors voted to remove Len Brandt as the CEO of the Company and appointed George Carpenter as our CEO. On the same date, Mr. Brandt resigned as Chairman of the Board, but retained his seat on the Board of Directors. On June 19, 2009, Mr. Brandt informed us of his intention to call a special meeting of Company stockholders in lieu of an annual meeting, for the purpose of unseating the other members of the Board and replacing them with his nominees. Subsequently, Mr. Brandt made multiple mailings to stockholders purporting to give notice of a meeting, scheduled multiple dates for the meeting and attempted to call and adjourn meetings on at least six occasions. Mr. Brandt failed to convene a quorum or take any action at any of these meetings.

Mr. Brandt finally attempted to call a special meeting of stockholders to be held on September 4, 2009, and purportedly held a meeting on that date, at which he claimed to have elected his own slate of directors. Subsequent to this purported meeting, Mr. Brandt filed an action under Section 225 of the Delaware General Corporation Law ("DGCL") seeking to validate the results of that purported meeting. Mr. Brandt also filed several other actions in the Delaware Chancery Court. He filed claims for breach of fiduciary duty in connection with the approval by our Board of the May 14, 2009 and June 18, 2009 bridge loans and the first closing of the private placement on August 26, 2009, and made a motion to preliminarily enjoin the voting of certain shares of our common stock and to prevent action by written consent by such stockholders. Mr. Brandt also sought a permanent injunction against the voting of these shares and to rescind their issuance. While these actions were pending, we were operating under what is commonly referred to as a "status quo" order, which maintained the Board of Directors in place immediately prior to the purported September 4 meeting (Messrs. Carpenter, Jones, Pappajohn, Thompson and Brandt, and Drs. Harbin and Vaccaro). The status quo order also placed certain restrictions on certain corporate actions during the pendency of the Section 225 action described above.

On December 2, 2009, following a two day trial, the Delaware Court of Chancery entered judgment for the Company and its incumbent directors in the Section 225 action and dismissed the action with prejudice. The entry of Judgment for the Company in the Section 225 action and dismissal of that action terminated the "status quo" order, including its restrictions on the Company's ability to engage in certain corporate actions. The Chancery Court also denied Brandt's motion for an injunction that sought to prevent the voting of shares issued by us in connection with our bridge financings in May and June of 2009 and the securities offering in August 2009, dismissed Mr. Brandt's counterclaims alleging breaches of duties in connection with those transactions, and dismissed with prejudice another action brought by Mr. Brandt that claimed he had not been provided information owed to him. Finally, the Court dismissed our claims against Mr. Brandt without prejudice.

On January 4, 2010, Mr. Brandt filed an appeal with the Supreme Court of the State of Delaware from the Chancery Court's ruling in the Section 225 action. Mr. Brandt also appealed the denial of his requested injunction and the dismissal of his claims regarding the financings and stock issuances, but he dismissed this appeal on February 25, 2010, and that ruling thereby became final and un-appealable. On April 20, 2010 the Delaware Supreme Court summarily affirmed the ruling of the Chancery Court dismissing the Section 225 action.

On September 29, 2009, the company held its first annual meeting of Stockholders at which each of George Carpenter, Henry Harbin, M.D., David Jones, John Pappajohn, Jerome Vaccaro, M.D. and Tommy Thompson were elected as directors. On April 27, 2010, the company held its 2010 annual meeting of Stockholders and five of the six directors were reelected. The sixth, Tommy Thompson, had resigned from the board.

We filed an action in the United States District Court for the Central District of California against Mr. Brandt and certain others in July 2009 and Mr. Brandt subsequently counterclaimed. On July 7, 2010 Mr. Brandt moved to dismiss his counterclaims against the Company and the Company consented to dismiss its complaint against Mr. Brandt and on July 13, 2010, all of the Company's claims and Mr. Brandt's counterclaims in such action were dismissed. This resolved all pending actions between the Company and its former CEO.

We have expended substantial resources to pursue the defense of legal proceedings initiated by Mr. Brandt. We do not know whether Mr. Brandt will institute new claims against us and the defense of any such claims could involve the expenditure of additional resources by the Company.

Publicly Announced Results of Clinical Trial

On November 2, 2009, we reported the results of a landmark study presented by Charles DeBattista, D.M.H, M.D., at the U.S. Psychiatric and Mental Health Congress. The poster presentation, titled Referenced-EEG® (rEEG) Efficacy Compared to STAR*D For Patients With Depression Treatment Failure: First Look At Final Results, highlighted a dramatic improvement in outcomes for patients with treatment resistant depression. In this study, our rEEG technology proved effective at predicting medication response for mostly treatment-resistant patients approximately 65 percent of the time.

The study included 114 patients at 12 medical sites, including Harvard, Stanford, Cornell, UCI and Rush. The 12-week study found that rEEG significantly outperformed the modified STAR*D treatment algorithm. The difference, or separation, between rEEG and the control group was 50 and 100 percent for the study's two primary endpoints. Typically, separation between a new treatment and a control group is less than 10 percent in antidepressant studies.

The study, the largest in our history, was a randomized, single blinded, controlled, parallel group, multicenter study. The patients in the study experienced depression treatment failure of one or more SSRIs and/or had failure with at least two classes of antidepressants. The patients fell into two groups: 1) those treated with rEEG medication guidance, and 2) those treated with the modified STAR*D treatment algorithm.

A paper with the results of this study has been peer-reviewed by the Journal of Psychiatric Research, has been published on-line at its website as of July 3, 2010 and is awaiting hard-copy publication.

Correspondence with FDA and Decision to Seek 510(k) Clearance

Since April of 2008, we have been in a dialogue with the FDA regarding whether rEEG constitutes a medical device which is subject to regulation by the FDA. On April 10, 2008 we received correspondence from the FDA in which the FDA indicated it believed, based in part on the combination of certain marketing statements it read on our website, together with the delivery of our rEEG Reports, that we were selling a software product to aid in diagnosis, which constituted a "medical device" requiring pre-market approval or 510(k) clearance by the FDA pursuant to the Federal Food, Drug and Cosmetic Act (the "Act"). We do not believe that sales of our Laboratory Information Services, including our rEEG Reports, are subject to regulatory pre-market approval or 510(k) clearance. We responded to the FDA on April 24, 2008 indicating that we believed it had incorrectly understood our product offering, and clarified that our Laboratory Information Services are not diagnostic and thus do not constitute a medical device. On December 14, 2008, the FDA again contacted us and indicated that, based upon its review of our description of our intended use of the rEEG Reports on our website, it continued to maintain that the rEEG Reports met its definition of medical devices. In response to the FDA communications, we made a number of changes to our website and other marketing documents to reflect that rEEG is a service to aid in medication selection and is not an aid to diagnosis. On September 4, 2009, through our regulatory counsel, we responded to the December 14, 2008 FDA letter explaining our position in more detail.

On December 28, 2009 we received a response from Jeffrey Shuren M.D., J.D., Acting Director of FDA's Center for Devices and Radiological Health ("CDRH"). This letter stated that FDA still believed that rEEG was a device subject to FDA regulation. Dr. Shuren stated that FDA believed that rEEG would fit into the regulatory scheme under an existing regulation and classification for class II devices and thus be subject to 510(k) clearance. Dr. Shuren's letter suggested several possible similar devices.

Based in part on Dr. Shuren's letter, on April 1, 2010 we filed an application to obtain 510(k) clearance for our rEEG service based upon its equivalence to predicate devices that already have FDA clearance.

Since submitting our 510(k) application on April 1, 2010 we have been in routine communication with the FDA and were responding to their comments. On July 27, 2010 we received a letter from the FDA division that was reviewing the submission. This letter informed us that they had determined that our rEEG service was not substantially equivalent ("NSE") to the predicate devices that had been granted 510(k) clearance. The FDA concluded that the rEEG service had new indications for use, which alters the diagnostic effect and impacts safety and effectiveness. Consequently, the FDA suggests that the rEEG service is a class III device which requires an approved premarket approval application (PMA) before it can be marketed legally, unless it is otherwise reclassified. A statement of classification as a class III device is standard procedure for any 510(k) submission that receives an NSE letter, and does not represent a final FDA action classifying the product into class III.

We currently plan to continue marketing as a non-device laboratory information service, while continuing to discuss alternative approaches with the FDA. Alternative approaches, which are not mutually exclusive, may consist of (1) filing a request for reconsideration of the NSE letter and/or (2) submitting a new 510(k) with revised claims for rEEG and/or additional information about the predicate devices. There is some risk that the FDA will seek to take enforcement action against rEEG based upon the agency's position that rEEG is a medical device if we continue to market our service. The Company and its advisors continue to believe that the Company's activities consist of medication sensitivity reference testing, as is performed by commercial laboratories and clinical review organizations, which is not subject to regulation by the FDA.

2010 Annual Meeting

On April 27, 2010, the Company held its 2010 annual meeting of stockholders and five of the six directors originally elected in September 2009 were reelected; the sixth, Tommy Thompson, had previously resigned from the board. In addition, the 2006 Stock Incentive Plan was amended to increase the number of shares reserved for issuance under the plan from 10 million to 20 million shares of common stock and to increase the maximum number of shares of common stock issuable within a calendar year to any eligible employee or director from 3 million to 4 million shares.

Critical Accounting Policies and Significant Judgments and Estimates

This management's discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from those estimates under different assumptions or conditions.

The following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our unaudited condensed consolidated financial statements.

Revenue Recognition

We have generated limited revenues since our inception. Revenues for our Laboratory Service product are recognized when a rEEG Report is delivered to a client-physician. For our Clinical Services, revenues are recognized when the services are performed.

Stock-based Compensation Expense

Stock-based compensation expense, which is a non-cash charge, results from stock option grants. Compensation cost is measured at the grant date based on the calculated fair value of the award. We recognize stock-based compensation expense on a straight-line basis over the vesting period of the underlying option. The amount of stock-based compensation expense expected to be amortized in future periods may decrease if unvested options are subsequently cancelled or may increase if future option grants are made.

Results of Operations for the three months ended June 30, 2010 and 2009

As earlier described, we operate in two business segments: Laboratory Information Services and Clinical Services. Our Laboratory Information Services business focuses on the delivery of reports ("rEEG Reports") that assist physicians with treatment strategies for patients with behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. Our Clinical Services business, operated through NTC, provides full service psychiatric services.

The following table presents consolidated statement of operations data for each of the periods indicated as a percentage of revenues.

	Three Months Ended June 30,	
	2010	**2009**
Revenues	100%	100%
Cost of revenues	21	19
Gross profit	78	81
Research and development	190	300
Sales and marketing	127	101
General and administrative expenses	679	541
Operating loss	(917)	(860)
Other income (expense), net	(26)	(138)
Net income (loss)	(942)%	(998)%

Revenues

	Three Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Service Revenues	$ 39,900	$ 26,700	49 %
Clinical Services Revenues	119,300	133,700	(11)%
Total Revenues	$ 159,200	$ 160,400	(1)%

With respect to our Laboratory Information Services business, the number of non-clinical study related paid rEEG Reports delivered increased from 69 for the quarter ended June 30, 2009 to 101 for the quarter ended June 30, 2010, while the average revenue per report increased from approximately $387 to $395 for each respective period. The total number of free rEEG reports, which were not associated with our clinical trial, increased from 49 for the quarter ended June 30, 2009 to 67 for the quarter ended June 30, 2010. These free reports are for training, database-enhancement and compassionate-use purposes. Now that our multi-site clinical study, which validates the efficacy of our service, has been published we do anticipate a modest increase in revenue given that there has, to date, only been limited marketing support for these revenues. We are also starting to focus on contracts with insurance payers and the military, which should increase the number of reports processed. Furthermore, we will also start offering our services to pharmaceutical companies to assist them with their product development activities.

On July 27, 2010 we received a letter from the FDA division that was reviewing our 510(k) submission suggesting that the rEEG service, unless otherwise reclassified, is a class III device which, as standard procedure, would requires an approved premarket approval application (PMA) before it can be marketed legally. We are currently evaluating our alternatives in response to the FDA letter. We will continue to discuss alternative approaches with the FDA. During the pendency of these proceedings, we will be able to continue to market our service as a non-device laboratory information service. There is some risk that the FDA will seek to take enforcement action against rEEG based upon the Agency's position that rEEG is a medical device if we continue to market our service. For more detail on this please refer to the section above on *Correspondence with FDA and Decision to Seek 510(k) Clearance*.

Our Clinical Services revenue declined by $14,400 for the quarter ended June 30, 2010, as compared to the corresponding prior year period, because of a reduction in the hours available by the prescribing staff to attend to new patients. To rectify this, we have recruited a new psychiatrist, who started working with our Clinical Services at the beginning of August, 2010. We anticipate that new patient volume, and therefore revenues, will start increasing in the fourth quarter of this calendar year. We do not plan to materially expand our Clinical Services business beyond its current potential, and therefore we do not anticipate a significant increase in revenues generated by this business segment beyond revenues that would permit this business to remain a self-sustaining, stand-alone clinic.

Cost of Revenues

	Three Months Ended June 30,		
	2010	2009	Percent Change
Cost of Laboratory Information Services revenues	$ 32,800	$ 30,700	7%

Cost of Laboratory Information Services revenues consists of payroll costs, consulting costs, and other miscellaneous charges. Consulting costs primarily represent external costs associated with the processing and analysis of rEEG Reports and range between $75 and $100 per rEEG Report. For the quarter ended June 30, 2010, cost of revenues consisted primarily of direct labor and benefit costs (including stock-based compensation costs) of $27,500, and consulting fees of $6,900. For the quarter ended June 30, 2009, cost of revenues included direct labor and benefit costs (including stock based compensation costs) of $24,600, and consulting fees of $5,900. Direct labor and benefits remained consistent for the two periods; the minor increase was due to stock-based compensation. Consulting fees increased in 2010 due to the higher number of rEEG Reports delivered. We ultimately expect cost of revenues to decrease as a percentage of revenues as operating efficiencies improve with the volume of reports processed.

Research and Development

	Three Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Services research and development	$ 302,400	$ 480,800	(37)%

Research and development expenses consist of clinical studies, training of doctors in the use of our rEEG reports and research studies, consulting fees, payroll costs (including stock-based compensation costs), expenses related to database enhancements and maintenance, and other miscellaneous costs. Research and development costs for the quarter ended June 30, 2010, primarily consisted of the following: payroll and benefit costs (including stock based compensation) of $234,200, consultant costs of $42,600, database costs of $9,600 and other miscellaneous costs of $16,000. For the comparable period for 2009, research and development costs included: payroll and benefit costs (including stock based compensation) of $198,400, consultant costs of $33,200, database costs of $3,200 and other miscellaneous costs of $13,500. Additionally, as the clinical study was in progress for the 2009 quarter only, clinical study patient costs were $204,400 and patient marketing and recruitment costs were $28,100.

Comparing the three months ended June 30, 2010 with the corresponding period in 2009, clinical study patient costs and patient marketing and recruitment costs were eliminated in the 2010 quarter as the study was completed in September 2009. Consequently, the focus of the research and development department moved from the clinical study to data analysis, the preparation of scientific papers for publications and the generation of grant applications for research funding. Additionally, the focus was also moved to enhancing the rEEG production system and the application for 510(k) clearance with the FDA. With these shifts in focus, consulting fees increased slightly by $9,500 with $17,400 being spent on research and $25,500 being spent on product enhancements. Payroll and benefits increased by $35,800 in the 2010 quarter primarily due a reassignment of a staff member between departments and an increase in stock based compensation. The increase in database costs was as a result of credits to our network of rEEG users for patient outcome data to enhance our database.

Sales and marketing

	Three Months Ended June 30,		
	2010	2009	Percent Change
Sales and Marketing			
Laboratory Information Services	$ 187,500	$ 159,600	17%
Clinical Services	14,100	1,700	729%
Total Sales and Marketing	$ 201,600	$ 161,300	25%

Sales and marketing expenses associated with our Laboratory Information Services business consist primarily of payroll and benefit costs, including stock-based compensation; advertising and marketing; consulting fees and conference and travel expenses. Sales and marketing expenses for the quarter ended June 30, 2010 primarily consisted of the following expenses: payroll and benefits $126,400 advertising and marketing $748, consulting $38,700 and conferences and travel $11,800. For the comparable period in 2009 expenses were as follows: payroll and benefits $136,900, advertising and marketing $8,400, consulting $6,600 and conferences and travel $3,400.

Comparing the three month period ended June 30, 2010 with the similar quarter in 2009, payroll and benefits decreased by $10,600 in the 2010 quarter as a result of the reassignment of staff to another department. Advertising and marketing expenses decreased by $7,700 as advertising was curtailed while the Company applied for its 510(k) clearance and marketing efforts were largely limited to planning and network development. Consulting expenses increased largely due to the use of a consulting resource to undertake network development activities. Conference and travel expenses increased by $8,300 in the 2010 quarter as a result of attendance at the American Psychiatric Association (APA) annual convention, where the Company first presented its prototype iPad application which interfaces with the rEEG system user portal.

The Clinical Services sales and marketing expenses consists of advertising to attract patients to the clinic. In the quarter ending June 30, 2010, Clinical Services also invested in re-launching its updated website and the development of a new marketing strategy. We anticipate a moderate increase in marketing expenditure to attract new patients to the clinic as the capacity to see patients has increased with the addition of a second psychiatrist.

General and administrative

	Three Months Ended June 30,		
	2010	2009	Percent Change
General and administrative			
Laboratory Information Services	$ 899,600	$ 683,100	32%
Clinical Services	$ 182,100	184,400	(1)%
Total General and administrative	$ 1,081,700	$ 867,500	25%

General and administrative expenses for our Laboratory Information Services business are largely comprised of payroll and benefit costs, including stock based compensation, legal, patent costs, other professional and consulting fees, general administrative and occupancy costs, conference and travel and miscellaneous costs. For the quarter ended June 30, 2010, General and Administrative costs consisted of salaries and benefit costs of $409,600; legal fees of $266,500; other professional and consulting fees of $96,600; general administrative and occupancy costs of $90,300; patent costs $18,200 and conference and travel costs of $18,200. For the corresponding period in 2009, General and Administrative costs consisted of the following: salaries and benefit costs of $171,400; legal fees of $258,900; other professional and consulting fees of $105,800; general administrative and occupancy costs of $102,900; patent costs of $23,600 and conference and travel expenses of $20,400.

With respect to our Laboratory Information Services business, payroll and benefit expenses increased by a net $238,200 for the quarter ended June 30, 2010 compared to the prior year quarter, due to a change in the staff mix, primarily because the Chief Financial Officer joined the Company in the 2010 quarter. Additionally stock compensation increased by $160,700 as the Company expensed the vested options which were granted in March 2010 (as disclosed in Note 3) to management, directors, advisors and consultants. Professional and consulting fees decreased by a net $9,200; part of the decrease was a due to the hiring the CFO, who was formerly a consultant; this reduction in fees was largely offset by consulting resources engaged to assist with the Company's publicity and insurance payer strategies. Legal fees increased by a net $7,600, consisting of lower regular legal fees of $55,800, which were more than offset by litigation fees of $63,400 associated with the Brandt appeal and the wrap up of the litigation in the California Supreme Court (see *Matters Involving our Former Chief Executive Officer and Former Director, Leonard Brandt)*. General and administrative costs decreased by a net $12,600 largely due to a reduction in bad debt write-downs. Patent expenses and conference and travel costs did not change substantially quarter over quarter.

General and administrative expenses for our Clinical Services business include all costs associated with operating NTC. This includes payroll costs, medical supplies, occupancy costs and other general and administrative costs. These costs remained constant for the quarter ended June 30, 2010 compared to the same period in 2009.

Interest income (expense)

	Three Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Services (Expense), net	$ (40,900)	$ (216,300)	(81)%
Clinical Services (Expense)	-	-	*
Total interest income (expense)	$ (40,900)	$ (216,300)	(81)%

* *not meaningful*

With respect to our Laboratory Information Services business, we earned interest income of $400 for the quarter ended June 30, 2010 from an interest bearing account. This was offset by $3,800 of interest expense on promissory notes. Additionally, the beneficial conversion discount amortization of the June 3, 2010 Bridge Note was $37,500 for the period and charged to interest. For the comparable period in 2009, net interest income was $400, while interest expenses on outstanding promissory notes were 19,200. Additionally, we incurred warrant discount charges of $107,500 associated with the bridge financings during the quarter ended June 30, 2009. Furthermore, a charge of $90,000 was incurred in the quarter ended June 30, 2009 as a financing premium in connection with the promissory note issued to Mr. Pappajohn.

Net Loss

	Three Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Services net loss	$ (1,417,900)	$ (1,541,400)	(9)%
Clinical Services net loss	(82,300)	(59,100)	39%
Total Net Loss	$ (1,500,200)	$ (1,600,500)	(7)%

The decrease in net loss of $100,300 in the three months ended June 30, 2010 compared to the prior year period is due primarily to net decreases in research and development costs from the completion of the clinical trial and decreases in our interest and financing charges. These decreases were more than offset by increased Sales and Marketing expenditure and General and Administration expenditure, which includes litigation expenses incurred in defending the lawsuit brought by Mr. Brandt and by Interest expenses, which included a beneficial conversion charge on the June 3, 2010, Bridge Note.

Results of Operations for the nine months ended June 30, 2010 and 2009

The following table presents consolidated statement of operations data for each of the periods indicated as a percentage of revenues.

	Nine Months Ended June 30,	
	2010	2009
Revenues	100%	100%
Cost of revenues	21	19
Gross profit	79	81
Research and development	175	308
Sales and marketing	126	134
General and administrative expenses	757	447
Operating loss	(979)	(808)
Other income (expense), net	(9)	(43)
Net income (loss)	(988)%	(851)%

Revenues

	Nine Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Service Revenues	$ 96,700	$ 86,300	12%
Clinical Services Revenues	384,300	441,900	(13)%
Total Revenues	$ 481,000	$ 528,200	(9)%

With respect to our Laboratory Information Services business the number of paid rEEG Reports delivered increased from 222 for the nine months ended June 30, 2009, to 248 for the nine months ended June 30, 2010, while the average revenue per report remained constant at approximately $390. The total number of free rEEG reports, which were not associated with our clinical trial, increased from 123 for the nine months ended June 30, 2009, to 160 for the same period ended June 30, 2010. These free rEEG reports are for training, database-enhancement and compassionate-use purposes. Now that our multi-site clinical study, which validates the efficacy of our service, has been published, we do anticipate a modest increase in revenue given that there has only been limited marketing support for these revenues to date. We are also starting to focus on our contracts with insurance payers and the military, which should increase the number of eEEG reports processed. Furthermore, we will also start offering our services to pharmaceutical companies to assist them with their product development activities.

On July 27, 2010 we received a letter from the FDA division that was reviewing our 510(k) submission suggesting that the rEEG service, unless otherwise reclassified, is a class III device which, as standard procedure, would requires an approved premarket approval application (PMA) before it can be marketed legally. We are currently evaluating our alternatives in response to the FDA letter. We will continue to discuss alternative approaches with the FDA. During the pendency of these proceedings, we will be able to continue to market our service as a non-device laboratory information service. There is some risk that FDA will seek to take enforcement action against rEEG based upon the Agency's position that rEEG is a medical device if we continue to market our service. For more detail on this please refer to the section above on *Correspondence with FDA and Decision to Seek 510(k) Clearance.*

Our Clinical Services revenue declined by $57,600 for the nine months ended June 30, 2010, as compared to the corresponding prior year period; this was because of a reduction in the hours available by the prescribing staff to attend to new patients. To rectify this we have recruited a new psychiatrist, who started working with our Clinical Services at the beginning of August, 2010. We anticipate that new patient volume, and therefore revenues, will start increasing in the fourth quarter of calendar 2010. We do not plan to materially expand our Clinical Services business beyond its current potential, and therefore we do not anticipate a significant increase in revenues generated by this business segment beyond being a self-sustaining, stand-alone clinic.

Cost of Revenues

	Nine Months Ended June 30,		
	2010	2009	Percent Change
Cost of Laboratory Information Services revenues	$ 101,900	$ 99,800	2%

Cost of Laboratory Information Services revenues consists of payroll costs, consulting costs, and other miscellaneous charges. Consulting costs primarily represent external costs associated with the processing and analysis of rEEG Reports and range between $75 and $100 per rEEG Report. For the nine months ended June 30, 2010, cost of revenues were $101,900 consisting primarily of direct labor and benefit costs (including stock-based compensation costs) of $77,900 and consulting fees of $24,400. For the nine months ended June 30, 2009, cost of revenues were $99,800, which includes direct labor and benefit costs (including stock based compensation costs) of $75,500, and consulting fees of $22,300. There has been no material change in Cost of Laboratory Information Services revenues for the two nine-month periods ending June 30, 2010 and 2009.

We ultimately expect cost of revenues to decrease as a percentage of revenues as operating efficiencies improve with the volume of reports processed.

Research and Development

	Nine Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Services research and development	$ 843,600	$ 1,628,500	(48)%

Research and development expenses consist of payroll costs (including stock-based compensation costs), consulting fees, clinical study costs, patient marketing and recruitment costs and other miscellaneous costs. Research and development costs for the nine months ended June 30, 2010, included the following: payroll and benefit costs (including stock based compensation) of $631,100, consultant costs of $157,400 and other miscellaneous costs of $55,100 which include travel, database and support costs. There were negligible clinical study patient costs or patient marketing and recruitment costs incurred for the nine months ended June 30 2010. For the comparable period for 2009, research and development costs included: payroll and benefit costs (including stock based compensation) of $594,600, consultant costs of $49,200 and other miscellaneous costs of $54,800 which included travel, database and support costs. Additionally, as the clinical study was in progress during the 2009 period, research and development costs included clinical study patient costs of $777,600 and patient marketing and recruitment costs of $152,400.

Comparing the nine months ended June 30, 2010 with the corresponding period in 2009, clinical study patient costs and patient marketing and recruitment costs were eliminated in the 2010 period as the study was completed in September 2009. Consequently, the focus of the research and development department moved from conducting the clinical study to analyzing the data and drafting scientific papers for publications; the department also generated several applications for research grants for future funding. Additionally, the focus moved to enhancing the rEEG production system and the preparation of the 510(k) application with the FDA. With this shift in focus, consulting fees increased by $108,100; in total $40,000 was spent on research and $157,400 was spent on product enhancements. Of the $157,400, $56,900 was spent on consulting resources assisting with the filing of our 510(k) application with the FDA, the balance, $100,500, was spent on programming resources to improve our database and the rEEG process. Payroll and benefits increased by $36,500 in the 2010 period primarily due to the reassignment of a staff member between departments and due to an increase in stock based compensation.

Sales and marketing

	Nine Months Ended June 30,		
	2010	2009	Percent Change
Sales and Marketing			
Laboratory Information Services	$ 587,800	$ 702,500	(16)%
Clinical Services	16,000	5,600	186%
Total Sales and Marketing	$ 603,800	$ 708,100	(15)%

Sales and marketing expenses associated with our Laboratory Information Services business consist primarily of payroll and benefit costs, including stock-based compensation; advertising and marketing; consulting fees and conference and travel expenses. Sales and marketing expenses for the nine-month period ended June 30, 2010 included the following expenses: payroll and benefits $363,500, advertising and marketing $58,700, consulting $89,100 and conferences and travel $45,600. For the comparable period in 2009 expenses were as follows: payroll and benefits $457,900, advertising and marketing $105,100, consulting $74,200 and conferences and travel $20,500.

Comparing the nine months ended June 30, 2010, with the same period in 2009; payroll and benefits decreased by $94,400 in the 2010 period as a result a reduction in staff and the reassignment of staff to another department. Advertising and marketing expenses decreased by $46,400 as advertising was curtailed while the Company awaited its 510(k) clearance and marketing efforts were largely limited to planning and network development, whereas for the 2009 period the Company was actively executing its advertising and marketing plans. Conference and travel expenses increased by $25,100 in the 2010 period as the Company conducted its first user-group conference in January 2010.

The Clinical Services sales and marketing expenses consists of advertising to attract patients to the clinic. In the nine months ending June 30, 2010, Clinical Services also invested in re-launching its updated website and the development of a new marketing strategy, which accounted for the increase in expenditure. We anticipate a moderate increase in marketing expenditure to attract new patients to the clinic as the capacity to treat patients has increased with the addition of a second psychiatrist.

General and administrative

	Nine Months Ended June 30,		
	2010	**2009**	**Percent Change**
General and administrative			
Laboratory Information Services	$ 3,117,600	$ 1,858,300	68%
Clinical Services	$ 522,300	501,800	4%
Total General and administrative	$ 3,639,900	$ 2,360,100	54%

General and administrative expenses for our Laboratory Information Services business are largely comprised of payroll and benefit costs, including stock based compensation, legal, patent costs, other professional and consulting fees, general administrative and occupancy costs, conference and travel and miscellaneous costs. For the nine-months ended June 30, 2010, General and Administrative costs included the following: salaries and benefit costs of $774,300; legal fees of $1,484,900: other professional and consulting fees of $381,100; general administrative and occupancy costs of $333,200; patent costs $61,400 and conference and travel costs of $82,400. For the same period in 2009, General and Administrative costs included the following: salaries and benefit costs of $627,000; legal fees of $390,300; other professional and consulting fees of $336,800; general administrative and occupancy costs of $345,700; patent costs of $112,700 and conference and travel expenses of $45,700. Additionally other one-time miscellaneous charges of $99,700 were booked for the 2009 period.

With respect to our Laboratory Information Services business, in the nine months ended June 30, 2010 in comparison to the same period in 2009, payroll and benefit expenses increased by a net $147,300 of which $140,200 was due to an increase in stock based compensation primarily due to the accounting for vested option grants given to employees, directors, advisors and consultants in March 2010. The balance of the change was due to the staff mix as the former CEO, Mr. Brandt left the Company in April 2009 and the former President, Mr. Carpenter became the CEO. Additionally the Chief Financial Officer (CFO), who was previously engaged as a consultant, joined the staff in mid February, 2010. Professional and consulting fees increased by a net $44,300 which is partly due to the mix of consulting services used and increased frequency and complexity of our SEC filings requiring additional professional services. Additionally, consultants were hired in connection with the Brandt litigation and private placement financings. Legal fees increased by a net $1,094,500 which was due to $1,128,800 being incurred in defending against actions brought by Mr. Brandt (see page 27 *Matters Involving our Former Chief Executive Officer and Former Director, Leonard Brandt).* This was partially offset by a decrease of $34,200 on non-litigation related legal fees. General administrative and occupancy costs decreased by a $12,500. Patent costs declined by $51,200 as costs were largely associated with patent maintenance. Conference and travel costs increased by $36,600 as a result of increased travel associated with raising capital and litigation activities. Miscellaneous expenses incurred in the 2009 nine-month period of $99,700 were the result of a revised IRS assessment on 2006 payroll taxes and Delaware Franchise Tax assessments for calendar years 2007 and 2008.

General and administrative expenses for our Clinical Services business includes all costs associated with operating NTC. This includes payroll costs, medical supplies, occupancy costs and other general and administrative costs. These costs increased by $20,500 to $522,300 in the nine months ending June 30, 2010 from $501,300 for the comparable period in 2009. This increase is largely due to clinical services staff that had worked on the clinical trial who were no longer being reimbursed by the Laboratory Information Services for their time spent on the study.

Interest income (expense)

	Nine Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Services (Expense), net	$ (42,600)	$ (219,800)	(81)%
Clinical Services (Expense)	(100)	(100)	0%
Total interest income (expense)	$ (42,700)	$ (219,900)	(81)%

With respect to our Laboratory Information Services business, we earned interest income of $3,100 for the nine months ended June 30, 2010 from an interest bearing account. This was offset by $8,100 of interest expense on promissory notes for the period. Additionally, the beneficial conversion discount amortization of the June 3, 2010 Bridge Note was $37,500 for the period and charged to interest. For the comparable period in 2009, net interest income was $8,600, while interest expenses on outstanding promissory notes were $30,900. Additionally, we incurred warrant discount charges of $107,500 associated with the bridge financings during this quarter ended June 30, 2009. Furthermore, a charge of $90,000 was incurred as a financing premium in connection with the promissory note issued to Mr. Pappajohn during the quarter ended June 30, 2009.

Net Loss

	Nine Months Ended June 30,		
	2010	2009	Percent Change
Laboratory Information Services net loss	$ (4,617,000)	$ (4,435,300)	4%
Clinical Services net loss	(136,200)	(60,100)	127%
Total Net Loss	$ (4,753,200)	$ (4,495,400)	6%

The increase in net loss of $257,800 in the nine months ended June 30, 2010 compared to the prior year period was primarily due to the $1.1 million that was incurred in defending against the lawsuit brought by Mr. Brandt, the Company's former CEO. For Laboratory Services over this period ended June 30, 2010, all departments experienced a reduction in expenditures except for those expenses associated with the litigation. Our Clinical Services operation experienced an increased deficit due to $57,600 reduction in revenues and an $18,500 increase in expenditure over the period ended June 30, 2010 with a resultant $76,100 increase in net loss.

Liquidity and Capital Resources

Since our inception, we have incurred significant losses. As of June 30, 2010, we had an accumulated deficit of approximately $29.9 million. We have not yet achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our research and development, selling and marketing and general and administrative expenses will continue to grow and, as a result, we will need to generate significant product revenues to achieve profitability. We may never achieve profitability.

As of June 30, 2010 we had approximately $35,100 in cash and cash equivalents and a working capital deficit of approximately $1.8 million compared to approximately $0.99 million in cash and cash equivalents and a working capital deficit of approximately $1.1 million at September 30, 2009.

Operating Capital and Capital Expenditure Requirements

Our continued operating losses and limited capital raise substantial doubt about our ability to continue as a going concern, and we need to raise substantial additional funds in the next 12 months in order to continue to conduct our business. Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations.

We need additional funds immediately to continue our operations and will need substantial additional funds before we can increase demand for our rEEG services. We are currently exploring additional sources of capital; however, we do not know whether additional funding will be available on acceptable terms, or at all, especially given the economic conditions that currently prevail. Furthermore, any additional equity funding may result in significant dilution to existing stockholders, and, if we incur additional debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. We expect to continue to incur operating losses in the future and to make capital expenditures to expand our research and development programs (including upgrading our CNS Database) and to scale up our commercial operations and marketing efforts. If adequate funds are not available, it would have a material adverse effect on our business, financial condition and/or results of operations, and could ultimately cause us to have to cease operations.

Sources of Liquidity

Since our inception substantially all of our operations have been financed primarily from equity and debt financings. Through June 30, 2010, we had received proceeds of approximately $13.7 million from the sale of stock, $5.0 million from the issuance of convertible promissory notes and $220,000 from the issuance of common stock to employees in connection with expenses paid by such employees on behalf of the company.

On July 5, 2010, we issued two unsecured promissory notes (each, a "Deerwood Note") in the aggregate principal amount of $250,000 to Deerwood Partners LLC and Deerwood Holdings LLC, with each investor purchasing a note in the aggregate principal amount of $125,000. The Deerwood Notes mature on December 15, 2010. We received $250,000 in gross proceeds from the issuance of these notes. SAIL Venture Partners L.P. ("SAIL"), of which our director David Jones is a managing partner, issued an unconditional guaranty to each of these investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under each Deerwood Note. We have agreed to indemnify SAIL and grant to SAIL a security interest in our assets in connection with the guaranties.

Each Deerwood Note accrues interest at a rate of 9% per annum which will be paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the Deerwood Note at our option (iii) closing of a financing in which the aggregate proceeds to us are not less than $3,000,000 or (iv) the occurrence of an Event of Default (as defined in the Deerwood Note). In addition, pursuant to a separate agreement that we entered into with each of the Deerwood investors, each investor will have the right to convert their note into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30.

The managing members of each of Deerwood Partners LLC and Deerwood Holdings LLC are George J. Kallins, M.D., who joined the Company's Board of Directors on July 5, 2010, and his spouse Bettina Kallins.

On June 3, 2010, we entered into a Bridge Note and Warrant Purchase Agreement with John Pappajohn, pursuant to which Mr. Pappajohn agreed to purchase two secured promissory notes (each, a "Bridge Note") in the aggregate principal amount of $500,000, with each Bridge Note in the principal amount of $250,000 maturing on December 2, 2010. On June 3, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the first Bridge Note (there were no warrants issued in connection with this first note) and on July 25, 2010, Mr. Pappajohn loaned us $250,000 in exchange for the second Bridge Note. In connection with his purchase of the second Bridge Note, Mr. Pappajohn received a warrant to purchase up to 250,000 shares of our common stock in accordance with the Bridge Note and Warrant Purchase Agreement. The exercise price of the warrant (subject to customary anti-dilution adjustments) is $0.50 per share.

Pursuant to a separate agreement that we entered into with Mr. Pappajohn on July 25, 2010, we have granted him a right to convert his Bridge Notes into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30. We have also agreed to enter into a registration rights agreement covering the securities issuable upon exercise of the warrant and on conversion of the Bridge Notes.

Each Bridge Note accrues interest at a rate of 9% per annum which will be paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the Bridge Note at the option of the Company (iii) closing of a financing in which the aggregate proceeds to the Company are not less than $3,000,000 or (iv) the occurrence of an Event of Default (as defined in the Bridge Note). The Purchase Agreement and each Bridge Note grants the investor a senior security interest in and to all of the Company's existing and future right, title and interest in its tangible and intangible property.

Cash Flows

Net cash used in operating activities was $4.1 million for the nine months ended June 30, 2010 compared to $3.1 million for nine months ended June 30, 2009. The increase in cash used of $1.0 million was primarily attributable to increased legal fees associated with the Brandt litigation of $1.13 million.

Investing activities consisted of an $8,900 purchase of office equipment during the nine months ended June 30, 2010. In the comparable period in 2009, $2,000 was used to purchase office equipment.

Net cash proceeds from financing activities for the nine months ended June 30, 2010 were $3.2 million. Of this $2.99 million were raised, net of placement agent fees, legal fees and other offering costs, on December 24 and 31, 2009 and January 4, 2010, in connection with the second, third and fourth closings of our private placement transaction. Additionally, $250,000 was raised from the exchange of a secured, convertible promissory note. These proceeds were partly offset by the repayment of $71,300 on a promissory note issued to Daniel Hoffman M.D. in connection with our acquisition of NTC and on a capital lease. Net cash proceeds from financing activities in the period ended June 30, 2009 were $1.7 million raised in exchange of secured, convertible promissory notes. Additionally, $294,900 was raised as a result of the exercise of warrants and options by shareholders. These net cash proceeds were partially offset with the use of $50,000 to pay off a convertible promissory note and 65,800 used to pay down the promissory note issued in connection with our acquisition of NTC and on a capital lease.

Contractual Obligations and Commercial Commitments

As of June 30, 2010, we have a contractual obligation to repay Mr. Pappajohn $250,000 on a secured, convertible promissory note which bears interest at 9% per annum and comes due on December 2, 2010. Additionally we have an obligation to pay the remaining balance on a promissory note to Daniel Hoffman M.D. of $48,900 issued in connection with our acquisition of NTC, which bears interest at a rate of 8% per annum. Furthermore, in December 2009, we signed a lease for our new headquarters and Laboratory Information Services premises located in Aliso Viejo, California. This lease expires on January 31, 2013 and our remaining rent obligation during the term of the lease is $123,300. In March 2010, we also signed an amendment which extends our lease for our Clinical Services premises located in Greenwood Village, Colorado. This lease expires on April 30, 2013 and our total rent obligation during the term of the lease is $ 178,100.

Income Taxes

Since inception, we have incurred operating losses and, accordingly, have not recorded a provision for federal income taxes for any periods presented. As of September 30, 2009, we had net operating loss carryforwards for federal income tax purposes of $20.8 million. The net operating loss carryforwards expire by 2028. Utilization of net operating loss and credit carryforwards may be subject to a substantial annual limitation due to restrictions contained in the Internal Revenue Code that are applicable if we experience an "ownership change". The annual limitation may result in the expiration of our net operating loss and tax credit carryforwards before they can be used.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements or financing activities with special purpose entities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, including our principal executive officer (PEO) and principal financial officer (PFO), conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15, as of June 30, 2010, the end of the period covered by this report. Based on this evaluation, our PEO and PFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our PEO and PFO, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

Other than as stated above, there are no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of exchange act rules 13a-15 or 15d-15 which occurred during the quarter ended June 30, 2010.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Please see Note 8 to our Notes to Unaudited Condensed Consolidated Financial Statements as well as the litigation summary beginning on page 27 under the heading "Matters Involving our Former Chief Executive Officer and Former Director, Leonard Brandt" for an update on our ongoing litigation with Leonard Brandt.

Item 1A. Risk Factors

Investing in our securities involves risks. In addition to the other information in this quarterly report on Form 10-Q, shareholders and potential investors should carefully consider the risks and uncertainties discussed in the section "Item 1.A. Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2009. If any of the risks and uncertainties set forth therein actually materialize, our business, financial condition and/or results of operations could be materially adversely affected, the trading price of our common stock could decline and a stockholder could lose all or part of his or her investment. The risks and uncertainties described in here and in our Annual Report on Form 10-K are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations.

We have been in a dialogue with the United States Food & Drug Administration (FDA) regarding its position that our rEEG service constitutes a medical device which is subject to regulation by the FDA. If we continue to market our rEEG service, there is risk that the FDA will seek enforcement action against us based upon the FDA's position that our rEEG service is a medical device. In addition, complying with regulatory requirements imposed by the FDA will further reduce our limited operating capital.

Since April of 2008, we have been in a dialogue with the FDA regarding its position that our rEEG service constitutes a medical device which is subject to regulation by the FDA. On April 10, 2008 we received correspondence from the FDA in which the FDA indicated it believed, based in part on the combination of certain marketing statements it read on our website, together with the delivery of our rEEG Reports, that we were selling a software product to aid in diagnosis, which constituted a "medical device" requiring pre-market approval or 510(k) clearance by the FDA pursuant to the Federal Food, Drug and Cosmetic Act (the "Act"). We responded to the FDA on April 24, 2008 indicating that we believed it had incorrectly understood our product offering, and clarified that our rEEG services are not diagnostic and thus for this as well as other reasons, do not constitute a medical device. On December 14, 2008, the FDA again contacted us and indicated that, based upon its review of our description of our intended use of the rEEG Reports on our website, it continued to maintain that our rEEG service met its definition of medical devices. In response to the FDA communications, we made a number of changes to our website and other marketing documents to reflect that rEEG is a service to aid in medication selection and is not an aid to diagnosis. On September 4, 2009, through our regulatory counsel, we responded to the December 14, 2008 FDA letter explaining our position in more detail.

During the intervening period of time, based upon conversations with FDA, we chose to submit an application to obtain 510(k) clearance for our rEEG service, without waiving our right to continue to take the position that our services do not constitute a medical device. We sought review of our rEEG service based upon its equivalence to predicate devices that already have FDA clearance which appeared to represent a sound mechanism to reduce regulatory risks.

On July 27, 2010 we received a letter (the "NSE Letter") from the FDA stating that they determined that our rEEG service was not substantially equivalent to the predicate devices that had previously been granted 510(k) clearance and that among other options we could be required to file an approved premarket approval application (PMA) before it can be marketed legally, unless it is otherwise reclassified.

We currently plan to continue marketing as a non-device laboratory information service, while continuing to discuss alternative approaches with the FDA. Alternative approaches, which are not mutually exclusive, may consist of (1) filing a request for reconsideration of the NSE letter and/or (2) submitting a new 510(k) with revised claims for rEEG and/or additional information about the predicate devices. If we continue to market our rEEG service and the FDA determines that we should be subject to FDA regulation, it could seek enforcement action against the Company based upon its position that our rEEG service is a medical device.

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

On June 3, 2010, we entered into a Bridge Note and Warrant Purchase Agreement with John Pappajohn to purchase two secured promissory notes (each, a "Bridge Note") in the aggregate principal amount of $500,000, with each Bridge Note in the principal amount of $250,000 maturing on December 2, 2010. On June 3, 2010, Mr. Pappajohn loaned the Company $250,000 in exchange for the first Bridge Note (there were no warrants issued in connection with this first note) and on July 25, 2010, Mr. Pappajohn loaned us $250,000 in exchange for the second Bridge Note. In connection with his purchase of the second Bridge Note, Mr. Pappajohn received a warrant to purchase up to 250,000 shares of our common stock. The exercise price of the warrant (subject to customary anti-dilution adjustments) is $0.50 per share.

Pursuant to a separate agreement that we entered into with Mr. Pappajohn on July 25, 2010, we have granted him a right to convert his Bridge Notes into shares of our common stock at a conversion price of $0.50. The conversion price is subject to customary anti-dilution adjustments, but will never be less than $0.30. We have also agreed to enter into a registration rights agreement covering the securities issuable upon exercise of the warrant and on conversion of the Bridge Notes.

Each Bridge Note accrues interest at a rate of 9% per annum which will be paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the Bridge Note at the option of the Company (iii) closing of a financing in which the aggregate proceeds to the Company are not less than $3,000,000 or (iv) the occurrence of an Event of Default (as defined in the Bridge Note). The Bridge Note and Warrant Purchase Agreement and each Bridge Note grants the investor a senior security interest in and to all of the Company's existing and future right, title and interest in its tangible and intangible property.

The descriptions of the terms of the Bridge Note and Warrant Purchase Agreement, the Bridge Notes, the warrant and the July 25, 2010 agreement are qualified by reference to the text of such documents, which are attached as exhibits to our current report on Form 8-K, filed on June 7, 2010, and Exhibit 10.2 to this quarterly report on Form 10-Q.

In issuing the Bridge Notes and warrant to Mr. Pappajohn without registration under the Securities Act, we relied upon the exemption from registration contained in Section 4(2) of the Securities Act and in Regulation D promulgated thereunder, as the Bridge Notes and warrant were issued to an accredited investor, without a view to distribution, and were not issued through any general solicitation or advertisement.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit Number	Exhibit Title
10.1	Amended and Restated 2006 Stock Incentive Plan (incorporated by reference to Appendix A to our Definitive Proxy Statement on Schedule 14A filed on April 1, 2010).
10.2	Letter Agreement, dated as of July 25, 2010, between the Company and John Pappajohn, relating to conversion rights of Bridge Notes.
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CNS Response, Inc.

Date: August 16, 2010

/s/ George Carpenter

By: George Carpenter
Its: Chief Executive Officer
(Principal Executive Officer)

/s/ Paul Buck

By: Paul Buck
Its: Chief Financial Officer
(Principal Financial and
Accounting Officer)

July 25, 2010

Mr. Pappajohn
666 Walnut Street
Suite 2116
Des Moines, IA 50309

Re: Conversion of Secured Promissory Notes.

Dear Mr. Pappajohn:

Reference is hereby made to the Secured Promissory Notes (the "**Notes**") issued by CNS Response, Inc. (the "**Company**") to you, (the **"Holder"**) on June 3 and July 25, 2010, each in the original principal amount of $250,000. This letter agreement will confirm that in addition to the terms and conditions as set forth in the Notes, the following provisions are also incorporated into the Notes (Capitalized terms used herein, unless otherwise indicated, shall have the same meaning as provided for in the Notes):

1. CONVERSION OF NOTES. The Notes shall be convertible into shares of the Company's common stock, par value $0.001 per share (the "**Common Stock**"), on the terms and conditions set forth in this Section 1.

(a) Conversion Right. At any time or times on or after the date hereof, the Holder shall be entitled to convert any portion of the outstanding and unpaid Conversion Amount (as defined below) into fully paid and nonassessable shares of Common Stock in accordance with Section 1(c), at the Conversion Rate (as defined below). The Company shall not issue any fraction of a share of Common Stock upon any conversion. If the issuance would result in the issuance of a fraction of a share of Common Stock equal to or in excess of one half of one share, the Company shall round such fraction of a share of Common Stock up to the nearest whole share. The Company shall pay any and all stock transfer, stamp, documentary and similar taxes (excluding any taxes on the income or gain of the Holder) that may be payable with respect to the issuance and delivery of shares of Common Stock to the Holder upon conversion of any Conversion Amount.

(b) Conversion Rate. The number of shares of Common Stock issuable upon conversion of any Conversion Amount pursuant to Section 1(a) (the "**Conversion Rate**") shall be determined by dividing (x) such Conversion Amount by (y) the Conversion Price.

(i) "**Conversion Amount**" means the sum of (A) the portion of the principal to be converted, redeemed or otherwise with respect to which this determination is being made and (B) accrued and unpaid interest with respect to such principal.

(ii) "**Conversion Price**" means, as of any Conversion Date (as defined below) or other date of determination, $0.50, subject to adjustment as provided herein.

(c) Mechanics of Conversion.

(i) Optional Conversion. To convert any Conversion Amount into shares of Common Stock on any date (a "**Conversion Date**"), the Holder shall (A) transmit by facsimile (or otherwise deliver), for receipt on or prior to 4:00 p.m., New York Time, on such date, a copy of an executed notice of conversion in the form attached hereto as Exhibit I (the "**Conversion Notice**") to the Company and (B) if required by Section 1(c)(ii), cause the Note to be delivered to the Company as soon as practicable on or following such date. On or before 4:00 p.m., New York Time, on the first (1st) Business Day following the date of receipt of a Conversion Notice, the Company shall transmit by facsimile a confirmation of receipt of such Conversion Notice to the Holder (at the facsimile number provided in the Conversion Notice) and the Company's transfer agent, if any (the "**Transfer Agent**"). On or before 4:00 p.m., New York Time, on the third (3rd) Business Day following the date of receipt of a Conversion Notice (the "**Share Delivery Date**"), the Company shall issue and deliver to the address as specified in the Conversion Notice, a certificate, registered in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder shall be entitled. If the Note is physically surrendered for conversion as required by Section 1(c)(ii) and the outstanding principal of the Note is greater than the principal portion of the Conversion Amount being converted, then the Company shall as soon as practicable and in no event later than three (3) Business Days after receipt of the Note and at its own expense, issue and deliver to the Holder a new Note representing the outstanding principal not converted. The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of the Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date.

(ii) Book-Entry. Notwithstanding anything to the contrary set forth herein, upon conversion of any portion of the Note in accordance with the terms hereof, the Holder shall not be required to physically surrender the Note to the Company unless (A) the full Conversion Amount represented by the Note is being converted or (B) the Holder has provided the Company with prior written notice (which notice may be included in a Conversion Notice) requesting physical surrender and reissue of the Note. The Holder and the Company shall maintain records showing the principal and interest converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of the Note upon conversion.

2. RIGHTS UPON ISSUANCE OF OTHER SECURITIES.

(a) Record Date. If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Adjustment of Conversion Price upon Subdivision or Combination of Common Stock; Stock Dividends If the Company at any time, or from time to time, subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision will be proportionately reduced. If the Company at any time, or from time to time, combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior to such combination will be proportionately increased. Any adjustment under this Section 2(b) shall become effective at the close of business on the date the subdivision or combination becomes effective or, in the case of a stock dividend or distribution, the date of such event.

(c) (i) Adjustment of Conversion Price upon Cash Dividends and Distributions. If the Company at any time, or from time to time, pays a dividend or makes a distribution in cash to the record holders of any class of Common Stock, then immediately after the close of business on the day that the Common Stock trades ex-distribution, the Conversion Price then in effect shall be reduced to an amount equal to the product of (i) the Conversion Price in effect immediately prior to such dividend or distribution and (ii) the quotient determined by dividing (A) the Closing Sale Price of the Common Stock on the day that the Common Stock trades ex-distribution by (B) the sum of (1) the Closing Sale Price of the Common Stock on the day that the Common Stock trades ex-distribution plus (2) the amount per share of such dividend or distribution. The Company shall not be required to give effect to any adjustment in the Conversion Price pursuant to this Section 2(c) unless and until the net effect of one or more adjustments (each of which shall be carried forward until counted toward an adjustment), determined in accordance with this Section 2(c), shall have resulted in a change of the Conversion Price by at least 1%, and when the cumulative net effect of more than one adjustment so determined shall be to change the Conversion Price by at least 1%, such change in the Conversion Price shall thereon be given effect.

(ii) Adjustment of Conversion Price upon Distributions of Capital Stock, Indebtedness or Other Non-Cash Assets. If the Company at any time, or from time to time, distributes any shares of capital stock of the Company (other than Common Stock), evidences of indebtedness or other non-cash assets (including securities of any person other than the Company but excluding (1) dividends or distributions paid exclusively in cash or (2) dividends or distributions referred to in Section 2(b)) to the record holders of any class of Common Stock, then the Conversion Price then in effect shall be reduced to an amount equal to the product of (A) the Conversion Price then in effect and (B) a fraction of which the numerator shall be the Closing Sale Price share of the Common Stock on the record date fixed for determination of stockholders entitled to receive such distribution less the fair market value on such record date (as determined by the Company's board of directors) of the portion of the capital stock, evidences of indebtedness or other non-cash assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date) and of which the denominator shall be the Closing Sale Price per share of the Common Stock on such record date. Notwithstanding the foregoing, if the securities distributed by the Company to the record holders of any class of Common Stock consist of capital stock of, or similar equity interests in, a Subsidiary or other business unit, the Conversion Price shall be decreased so that the same shall be equal to the rate determined by multiplying the Conversion Price in effect on the record date with respect to such distribution by a fraction the numerator of which shall be the average Closing Sale Price of one share of Common Stock over the Spinoff Valuation Period (as defined below) and of which the denominator shall be the sum of (x) the average Closing Sale Price of one share of Common Stock over the ten consecutive Trading Day period (the "**Spinoff Valuation Period**") commencing on and including the fifth Trading Day after the date on which "ex-dividend trading" commences on the Common Stock on the Principal Market or any national or regional exchange or market on which the Common Stock is then listed or quoted and (y) the average Closing Sale Price over the Spinoff Valuation Period of the portion of the securities so distributed applicable to one share of Common Stock, such adjustment to become effective immediately prior to the opening of business on the fifteenth Trading Day after the date on which "ex-dividend trading" commences.

(d) Other Events; Other Dividends and Distributions. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's board of directors shall make in good faith an adjustment in the Conversion Price so as to protect the rights of the Holder under the Note; provided that no such adjustment will increase the Conversion Price as otherwise determined pursuant to this Section 2.

(e) Notice of Adjustment. Whenever the Conversion Price is adjusted pursuant to this Section 2, the Company shall promptly mail notice of such adjustment to the Holder, which notice shall set forth the Conversion Price after adjustment, the date on which such adjustment became effective and a brief statement of the facts resulting in such adjustment.

(f) Minimum Adjusted Conversion Price. Notwithstanding anything to the contrary set forth in the Note, the Conversion Price shall not be less than $0.30.

3. DEFINED TERMS. For purposes of this letter agreement, the following terms shall have the meanings indicated:

(a) "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(b) "**Closing Bid Price**" and "**Closing Sale Price**" mean, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg Financial Markets, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00 p.m., New York Time, as reported by Bloomberg Financial Markets, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg Financial Markets, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg Financial Markets, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotations Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(c) "**Convertible Securities**" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock.

(d) "**Options**" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

(e) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(f) "**Principal Market**" means the OTC Bulletin Board or principal stock exchange or trading market for the Common Stock, if any.

(g) "**Subsidiary**" means with respect to any Person, any corporation, association or other business entity of which more than 50% of the total voting power of equity entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees or other governing body thereof is at the time owned or controlled by such Person (regardless of whether such equity is owned directly or through one or more other Subsidiaries of such Person or a combination thereof).

(h) "**Trading Day**" means any day on which the Common Stock is traded on the Principal Market; provided that "Trading Day" shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00 p.m., New York Time).

The terms and conditions of this letter agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the undersigned parties. This letter agreement and any controversy arising out of or relating to this letter agreement shall be governed by and construed in accordance with the internal laws of the State of California, without regard to conflict of law principles that would result in the application of any law other than the law of the State of California. This letter agreement may be executed and delivered in two or more counterparts, including, but not limited to, by PDF or facsimile, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

If you are in agreement with the foregoing, please so indicate by signing and returning a copy of this letter agreement, which will constitute our agreement with respect to the matters set forth herein.

Sincerely,
CNS RESPONSE, INC.

/s/ George Carpenter
George Carpenter IV
Chief Executive Officer

ACKNOWLEDGED AND AGREED TO:

/s/ John Pappajohn
John Pappajohn

EXHIBIT I

CNS RESPONSE, INC.
CONVERSION NOTICE

Reference is made to the Convertible Note (the "**Note**") issued to the undersigned by CNS Response, Inc. (the "**Company**"). In accordance with and pursuant to the Note, the undersigned hereby elects to convert the Conversion Amount (as defined in the Note) of the Note indicated below into shares of Common Stock par value $0.001 per share (the "**Common Stock**") of the Company, as of the date specified below.

Date of Conversion: _____

Aggregate Conversion Amount to be converted: _____

Please confirm the following information:

Conversion Price: _____

Number of shares of Common Stock to be issued: _____

Please issue the Common Stock into which the Note is being converted in the following name and to the following address:

Issue to: _____

_____

_____

Facsimile Number: _____

Authorization: _____

By: _____

Title: _____

Dated: _____

Account Number:
(if electronic book entry transfer) _____

Transaction Code Number:
(if electronic book entry transfer) _____

EXHIBIT 31.1

Certification of Principal Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, George Carpenter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNS Response, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 16, 2010

/s/ George Carpenter
George Carpenter
Chief Executive Officer

EXHIBIT 31.2

Certification of Principal Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul Buck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNS Response, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 16, 2010

/s/ Paul Buck
Paul Buck
Chief Financial Officer

EXHIBIT 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the "Report") by CNS Response, Inc. (the "Registrant"), the undersigned hereby certifies that to the best of his knowledge:

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

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 16, 2010

/s/ George Carpenter
George Carpenter
Chief Executive Officer (Principal Executive Officer)

/s/ Paul Buck
Paul Buck
Chief Financial Officer (Principal Financial Officer)