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

FORM 10-K

(mark one)

Annual Report Pu rsuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended September 30, 2011

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 000-26285

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)

(949) 420 4400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

☐

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 Act.)

Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on March 31, 2011, the last business day of the registrant's most recently completed second fiscal quarter was $25,252,920 (based on the closing sales price of the registrant's common stock on that date).

At December 16, 2011, the registrant had 56,218,431 shares of Common Stock, $0.001 par value, issued and outstanding.

CNS RESPONSE, INC.

2011 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 2011 Annual Report on Form 10-K, including the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” contains “forward-looking statements” 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 limited capital and inability to raise additional funds to support operations and capital expenditures;
- our inability to gain widespread acceptance of our PEER Reports;
- our inability to prevail in convincing the FDA that our rEEG or PEER Online service does not constitute a medical device and should not be subject to regulation;
- the possible imposition of fines or penalties by the FDA for alleged violations of its rules or regulations;
- 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,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.”

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.

ITEM 1. Business

With respect to this discussion, the terms "we" "us" "our" "CNS" and the "Company" refer to CNS Response, Inc., a Delaware corporation and its wholly-owned subsidiaries CNS Response, Inc., a California corporation ("CNS California"), Colorado CNS Response, Inc., a Colorado corporation ("CNS Colorado") and Neuro-Therapy Clinic, Inc., a Colorado corporation and a wholly-owned subsidiary of CNS Colorado ("NTC").

Background

CNS Response, Inc. was incorporated in Delaware on March 20, 1987, under the name Age Research, Inc. Prior to January 16, 2007, CNS Response, Inc. (then called Strativation, Inc.) existed as a "shell company" with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merge. On January 16, 2007, we entered into an Agreement and Plan of Merger with CNS Response, Inc., a California corporation formed on January 11, 2000 ("CNS California"), and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary ("MergerCo") pursuant to which we agreed to acquire CNS California in a merger transaction wherein MergerCo would merge with and into CNS California, with CNS California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed, CNS California became our wholly-owned subsidiary, and on the same date we changed our corporate name from Strativation, Inc. to CNS Response, Inc.

Our address is 85 Enterprise, Suite 410, Aliso Viejo, CA 92656, our telephone number is (949) 420-4400 and we maintain a website at *www.CNSResponse.com*. The reference to our web address does not constitute incorporation by reference of the information contained at this site.

Overview

We are a cloud-based neurometric company focused on analysis, research, development and the commercialization of a patented platform which allows psychiatrists and other physicians to exchange outcome data referenced to electrophysiology. With this information, physicians can make more informed decisions when treating individual patients with behavioral (psychiatric and/or addictive) disorders. Our secondary Clinical Services business, operated by our wholly-owned subsidiary, Neuro-Therapy Clinic ("NTC"), is a full service psychiatric clinic.

Neurometric Information Services

Because of the lack of objective neurophysiology data available to physicians, the underlying pathology and physiology of behavioral disorders such as depression, bipolar disorder, eating disorder, addiction, anxiety disorders and attention deficit hyperactivity disorder (ADHD) can rarely be analyzed effectively by treating physicians. Doctors are ordinarily forced to make prescription decisions based only on symptomatic factors. As a result, treatment can often be ineffective, costly and may require multiple courses of treatment before the effective medications are identified, if at all.

We believe that our technology offers an improvement over traditional methods for evaluating pharmacotherapy options in 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 what we believe to be the largest outcomes database for mental health care pharmacotherapy, consisting of over 17,000 medication trials for patients with psychiatric or addictive problems. We refer to this database as the PEER Online database (it was formerly known as the "CNS Database"). For each patient in the PEER Online database, we have compiled neurophysiology data from electroencephalographic ("EEG") scans, symptoms and outcomes often across multiple treatments from multiple psychiatrists and other physicians. This patented technology, called PEER Online™ (based on a technology known as "Referenced-EEG®" or "rEEG®"), represents an innovative approach to describing effective medications for patients suffering from debilitating behavioral disorders.

This technology allows us to create and provide simple reports ("PEER Outcome Reports" or "PEER Reports") to medical professionals that summarize historical treatment success of specific medications for those patients with similar neurometric brain patterns. PEER Reports provide neither a diagnosis nor a specific treatment, but like all lab results, provide objective, evidence-based information to help the prescriber in their decision-making. With PEER Reports, physicians order a digital EEG for a patient, which is then referenced to the PEER Online database. By providing this reference correlation, an attending physician can better establish a treatment strategy with the knowledge of how other patients with similar brain function have previously responded to a myriad of treatment alternatives. Analysis of this complete data set yielded a platform of neurometric variables that have shown utility in characterizing patient response to diverse medications. This platform then allows a new patient to be characterized based on these neurometric variables, and the database to be queried to understand the statistical response of patients with similar brain patterns to the medications currently in the database.

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

In addition to its utility in providing psychiatrists and other physicians/prescribers with medication sensitivity data, our PEER Online technology provides us with significant opportunities in the area of pharmaceutical development. Our PEER Online™ technology, in combination with the information contained in the PEER Online database, offers the potential to enable the identification of novel uses for neuropsychiatric medications currently on the market and in late stages of clinical development, as well as in aiding 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 pathophysiological markers 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 larger psychiatric medication management practices in the state of Colorado, with six full time and seven 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 served as our President from April 2009 to April 2011.

NTC, having performed a significant number of rEEGs, serves as an important resource in our product development, the expansion of our PEER Online 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 Neurometric 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 Neurometric Information Services business, and we have no current plans to expand this business.

Neurometric Information Services

The Challenge and the Opportunity

The 1990's were known as "the Decade of the Brain," a period in which basic neuroscience yielded major advances in drug discovery and neuro-therapy. Several trends have emerged which may propel significant adoption of these advances over the next decade:

- More than $29 billion in spending has been dedicated to the compulsory utilization of electronic health records and other IT services under the "HITECH" portion of the American Recovery and Reinvestment Act (ARRA), with most of that spending to occur between 2011-2013. Currently, less than 20% of healthcare providers utilize electronic records, yet over 90% of providers will be expected to have adopted such systems by 2015 (or face economic penalties under Medicare/Medicaid regulations). This extraordinary growth in the use of medical informatics tools creates a significant and expanding market for CNS Response.

- Similarly, Comparative Effectiveness Research has been made a key feature of the Obama health plan. The cost to treat Americans under care for depression and other mental illnesses rose by nearly two-thirds from $35 billion to $58 billion in the last 10 years, according to a recent report from the Agency for Healthcare Research and Quality. Finding more cost-effective treatment modalities in mental disorders will be critical to successful health care reform;

- The Mental Health Parity Act (Parity Act) now requires payers to pay for behavioral medications and treatments using the same standards for evidence and coverage as they currently use for medical/surgical treatments;

- According to a recent RAND report, 275,000 returning military personnel from the Iraq and Afghanistan theatres suffer from Major Depression, Post Traumatic Stress Disorder (PTSD), traumatic brain injury; and

- Consumers have emerged as active decision makers in behavioral treatment, driven by over $4.8 billion in annual Pharma direct-to-consumer advertising and the internet. At the same time, media costs for reaching those consumers are at historic lows.

Today, there are over 100 prescription drugs available to patients suffering from a behavioral disorder, representing one of the largest and fastest-growing drug classes. Unfortunately, psychotropic drugs often do not work, or lose their effect over time, and over 17 million Americans who have failed two or more medication treatments are now considered “treatment-resistant”. For these patients, the conventional “trial and error” method of prescribing psychotropic drugs has resulted in low efficacy, high relapse and treatment discontinuation rates, significant patient suffering and billions of dollars in additional cost to payers.

We believe we are the first company to create a neurometric database that correlates medication outcomes with objective neurophysiology data. Our founding physicians developed this tool to reduce trial and error and thereby improve pharmacotherapy outcomes, particularly in treatment-resistant patients, a particularly expensive patient population with profound unmet clinical needs. Our rEEG technology has been used as adjunctive information by physicians treating behavioral disorders such as depression, anxiety, anorexia, OCD, bipolar, ADHD, addiction and others.

rEEG® was developed by a pathologist and a psychiatrist who recognized that correlation of a patient’s unique brain patterns to known long-term medication outcomes of similar patients might significantly improve therapeutic performance. This approach, commonly referred to as Personalized Medicine, is in the process of transforming both clinical practice and the pharmaceutical industry. CNS Response brings this science to behavioral medicine, where the unmet clinical need is well-documented, expensive, and growing.

The PEER Online Process

PEER Outcome Reports are offered as a neurometric information service, in which standard electroencephalogram (EEG) readings are referenced to a database to suggest patient-specific probabilities of response to different medications. EEG recording devices are widely available, inexpensive to lease, and are available in most cities by independent mobile EEG providers.

The service works as follows:

- Patients are directed by an attending physician to a local PEER Network provider, who performs a standard digital EEG.

- The EEG data file is uploaded over the web to our central analytic database.

- We analyze the data against the PEER Online database for patients with similar brain patterns.

- We provide a report describing the success of patients with similar neurophysiology on different pharmacotherapies (much like an antibiotic sensitivity report commonly used in medicine).

- The PEER Outcome Report is sent back to the attending physician, usually by the next business day.

Treatment Decisions Made by Licensed Professionals

With the exception of our subsidiary, the Neuro-Therapy Clinic based in Denver, CO, we do not currently operate our own healthcare facilities, employ our own treating physicians or provide medical advice or treatment for patients. Physicians who contract for our PEER Reports own their own facilities or professional licenses, and control and are responsible for the clinical activities provided on their premises. Patients receive medical care in accordance with orders from their attending physicians or providers. Physicians who contract for PEER Reports are responsible for exercising their independent medical judgment in determining the specific application of the information contained in the PEER Reports and the appropriate course of care for each patient. Following the prescription of any medication, physicians are presumed to administer and provide continuing care treatment.

Estimated Market for PEER Reports

Currently, the wholesale (direct to physician) price for standard PEER testing is $400 per test, and the retail (payer and consumer) price is approximately $800. Thus far, payments have typically been from psychiatrists whose patients pay privately for the PEER Outcome Report. The National Institute of Mental Health (NIMH) estimates that only 12.7% of patients receive minimally effective treatment, with over 17 million Americans now classified as “treatment-resistant”, meaning that they have failed to find relief after trying two or more medications. Assuming a $600 average selling price (ASP) and an addressable market of 25% of treatment-resistant patients, we estimate a U.S. Commercial market size of approximately $2.7 billion annually.

The NIMH also estimates that in a given year approximately one quarter of adults are diagnosed for one or more mental disorders. Furthermore, over 16% of adults will experience a major depression disorder in their lifetime. A large study published by the European College of Neuropsychopharmacology reported that 165 million (38%) of Europeans are plagued by mental and neurological disorders which have become Europe’s largest health challenge according to the study authors.

Path to Adoption

Several firms in other areas of medicine (such as Oncology) have successfully commercialized products that describe historical medication response based on objective physiology data. We are following the paths to adoption used by several of these firms by focusing on growth in three stages:

(1) Private pay market.

Consumers and private-pay psychiatrists drive over 33% of the market for psychiatric visits, and a significant proportion of all licensed psychiatrists now describe themselves as private pay only. We believe consumers who have experienced treatment failure will seek out our network of physicians once they become aware of the successful outcomes demonstrated by our clinical trial.

During 2008, the recruiting for our Depression Efficacy Trial (the Depression Efficacy Trial is further described under the heading Neurometric Services Accomplishments below) generated many important lessons about integrated marketing for our PEER Online service. By using a media mix of web, radio and TV, interested patients were delivered into the trial at an average cost of $40-$68 per contact. We will continue to pursue integrated consumer marketing as a means to introduce interested patients to our PEER Online provider network.

To drive growth in private pay, consumer-driven rEEG testing, we plan to do the following:

- Grow our focused physician network: We currently have 70 active practicing physicians utilizing PEER Outcome Reports in their practices, defined as having paid for testing within the last 12 months. Over the same period, 31 new physicians were trained. Physicians who become “power users” (which we define as physicians who conduct several tests per month) report significantly better results than casual users of PEER Online technology, and have certain economies of scale in using the test in their practices. Similar to practices that have adopted laser eye surgery technology in consumer-driven ophthalmology, successful practices using PEER Online have reported that as their word-of-mouth referrals increase, their procedure billings increase, and their average patient visits decrease (as patients improve). Accordingly, their patient turnover may increase over time, requiring additional marketing efforts to grow their practice volume.

  We plan to focus on supporting these power users through direct marketing, clinical practice support (patient intake, scheduling, washout support and reporting), and technical support. This focused network approach has been successful in other specialties (for example, in organ transplant networks and in disease management) because it is easier to sell to payers, facilitates data collection, and is more cost-effective in delivering care even at higher provider margins. Currently, the wholesale (direct-to-physician) price for a standard PEER Outcome Report is $400 per test, and the retail (payer and consumer) price is approximately $800.

- Utilize our PEER Online service: In 2008, we purchased the psychiatric clinic in Denver, co-founded by our Chief Medical Officer, Daniel Hoffman, MD. The clinic currently serves as a platform for perfecting PEER Online workflow, information systems, product development and research. We also test local marketing strategies in Denver which can then be generalized to other PEER Online network clinics. The Denver clinic may ultimately become a national Center of Excellence for neuropsychiatry, where insurers may direct certain treatment-resistant patients.

- Scalable platform for delivery: During 2009 and 2010, significant development effort was focused on production systems and lab infrastructure to accommodate potential growth in the production volume of our PEER Reports. Our current production application is able to accommodate up to 100 tests per week without additional manpower. In addition to providing scalable capacity, the production system provides for online delivery of tests and delivery of test data to physicians’ desktops or iPad. Currently, we are investing in projects to reduce or eliminate the remaining manual processes in test production: including the “artifacting” of EEG data and the Neurologist review of each case. It is estimated that these processes will, over time, be replaced with validated algorithms, exception-based reviews and/or post-facto sampling for quality assurance.

(2) Payer economic trials.

Health plans currently spend over $30 billion on psychotropic medications each year according to the Substance Abuse and Mental Health Services Administration (SAMHSA), and most are aware that these agents only work on about 30% of patients who take them. The lack of medication adherence and poor treatment outcomes in behavioral health has been a longstanding issue for payers, but they have lacked a targeted, cost-efficient approach to solve the problem.

Presently, PEER Outcome Reports are not reimbursable procedures for most health care payers. Initially, payer response to most new technologies is a reflexive denial of coverage, regardless of the superiority of evidence or economics. Over time, however, certain payers may adopt technologies which confer a clear marketing or underwriting advantage, or which protect them from legal claims for reimbursement under new legislation (e.g. Parity).

We intend to prove that our PEER Reports are a compelling value for payers through independent research, budget impact models, and payer pilots (economic trials):

- **Evidence for payers**: We will share well-designed research on PEER Report efficacy, intended to demonstrate the weight of superior evidence in controlled and real-world clinical trials and case series.

- **Parity**: The Mental Health Parity Act (Parity Act) is changing all payers' coverage criteria, requiring equal coverage for behavioral and medical therapies, using the same coverage criteria and evidence. Milliman Global Actuarial Services estimates a 1-3% increase in overall health costs resulting from a significant increase in behavioral health expenditures driven by the Parity Act. Of particular interest to us, however, is the specific language in the Parity Act which requires that coverage of a scope-of-service for one type of diagnosis (for example: a Neurologist performing a diagnostic EEG for Epilepsy) be applied equally as to the use of an EEG by a Psychiatrist for medication management.

- **Budget Impact Model**: A Budget Impact Model for PEER Online has been developed by Analysis Group Economics based on the published research of Kessler, Russell and others covering the cost of treatment failure in mental disorders. Modeling the economic impact of PEER Reports in a health plan, we estimate that full utilization of PEER Reports in treatment-resistant depression, anxiety, bipolar and ADHD could save $8,500 per treatment-resistant member annually.

- **Economic Trials**: Economic Trials are intended to demonstrate the comparative effectiveness of PEER Reports versus prevailing Trial & Error medication management through pilot programs within a payer's own population. Although no payer is currently reimbursing physicians for the use of PEER Online technology, we are currently negotiating pilot programs for reimbursement coverage with several of the nation's largest payers, representing over 80 million covered lives.

(3) Full payer coverage.

We will seek to achieve full reimbursement by insurance companies of PEER Online services by establishing a successful direct-to-consumer adoption of the PEER Reports, along with continued release of confirmatory PEER Online research in peer-reviewed publications. Following the examples described above, we will seek to accelerate the effect of these initiatives in the following ways:

- **Patient Advocacy** : We believe that some components of the PEER Report may be billable to payers under the Mental Health Parity Act. Historically, patients of our physician network providers, and those in our own clinic in Colorado, have paid out of pocket for PEER Reports and then sought reimbursement from their insurance carrier. Although these providers frequently furnish information to support these claims, the success of their prosecution by patients is unclear.

  Accordingly, we intend to organize the advocacy of each claim with third party payers, which has been successful with other companies.

- **Guideline development**: We intend to continue internal and externally-sponsored clinical research to prove the efficacy of our technology to professional associations, such as the American Psychiatric Association. We believe that with strong clinical results, professional associations may endorse PEER Reports in their treatment guidelines, which may drive full payer coverage.

We also believe that the inclusion of historical and new PEER Report research in Comparative Effectiveness studies conducted under the Agency for Healthcare Research and Quality (AHRQ) would be a significant milestone. As a consequence of this recent focus on cost-effective treatment, an unprecedented level of funding has been made available under the Economic Recovery Act, the budgets for NIH and AHRQ, and earmarked budgets for the Department of Defense and the Veterans Administration ("VA"). It should be noted that the VA recently lost an appeal in the 9th Circuit Court, which ruled that delays by the VA in mental healthcare treatment and substandard results were unconstitutional. We intend to pursue research opportunities with several external sponsors of research, including:

- the **National Institute of Mental Health**, focusing on the cost-effectiveness of PEER Reports as a more deployable version of brain imaging to guide prescribing;

- the **Department of Defense and the Veterans Administration**, to address the potential for PEER Reports in treating returning soldiers with PTSD and Major Depression; and

- the **Centers for Medicare and Medicaid Services (CMS)**, as a mechanism for improving quality and cost performance in programs that spend billions on psychotropic medications.

Neurometric Services Accomplishments

Optum Approval as Emerging Technology: The company has been involved in a one-year Technology Assessment process with United Healthcare, the nation's largest health insurance carrier, reviewing clinical evidence to determine the clinical effectiveness and reimbursement coverage for our technology. The carrier approved PEER Outcomes for reimbursement as an Emerging Technology, determining that it had sufficient evidence based on two randomized controlled trials with statistical significance and reasonable effect size. The technology is approved for use in pilot programs for selected regions and/or clients. The Technology Assessment has been published at the following web address:
https://www.ubhonline.com/html/guidelines/index.html#bestPracticeGuidelines.

Depression Efficacy Study: Over the last few years, we have been primarily focused on proving the efficacy of PEER Report informed treatments through multiple clinical trials. The largest of these — the Depression Efficacy Trial — was a multi-center, randomized, parallel controlled trial completed in 2009 at 12 academic and commercial sites, including Harvard, Stanford, Cornell, UCI and Rush. The study began in late 2007 and was completed in September 2009, screening 465 potential subjects with Treatment Resistant Depression and ultimately randomizing 114 participants to a 12-week course of treatment utilizing PEER Reports in the experimental group and a modified STAR*D algorithm in the control group (STAR*D, or Sequenced Treatment Alternatives to Relieve Depression, was a large, seven-year study sponsored by the National Institute of Mental Health and completed in 2006). Primary clinical outcome measures included the Quick Inventory of Depression Symptomology (QIDS-16-SR) and the Quality of Life Enjoyment and Satisfaction Questionnaire (Q-LES-Q-SF). Top-line results were consistent with previous clinical trials of PEER Reports:

- The study found that PEER Reports significantly outperformed the modified STAR*D treatment algorithm beginning at week two. The difference, or separation, between PEER Reports and the STAR*D control group was 50 and 100 percent for the study's two primary endpoints. By contrast, separation between a new treatment and a control group often averages less than 10 percent in antidepressant studies. Interestingly, separation was achieved early (in week 2) and was durable, continuing to grow through week 12.

- The control group in this case, STAR*D, was a particularly tough comparator, representing a level of evidence-based depression care that is available to only 10% of the US population, according to one of the study's authors.

- Statistical significance ($p < .05$) was achieved on all primary and most secondary endpoints.

During 2011 we released the results of several studies which had been conducted during the year as follows:

Commercial Payer Analysis: We conducted a retrospective analysis of physician reports and health records of patients who were members of several of the nation's largest managed care networks. The results were presented at the 2011 NEI Global Psychopharmacology Congress. The analysis of 257 evaluable patient records, for the period starting in 2003 through mid-2011, represents cases in which the prescribers utilized PEER Outcome Reports for these patients. The analysis found that prescribers using the PEER Outcomes reported reduced trial-and-error pharmacotherapy through the following findings:

- 27 patients (11%) actually required no medications at all.

- Of the remaining patients who required medications:

  - 87% of the patients achieved "much improved" or "very much improved" on the Clinical Global Improvement standardized outcomes measurement.

  - 69% of the patients achieved Maximum Medical Improvement (MMI) in an average of four visits

  - Out of 68 (26%) patients who had reported suicidality preceding their PEER Outcome Report, nine (4%) reported suicidal thoughts during the average two year follow-up period.

  - Out of 33 patients who had experienced a severe adverse event on their previous medications, 18 (55%) had PEER Outcome Reports which indicated poor outcomes for those medications in patients with similar EEG findings, suggesting caution in using those drugs.

Medco Analysis: In 2011, the company signed an agreement with Medco Health Services Inc to analyze historical PEER Outcome results in terms of Medco drug and healthcare claims datasets. Approximately 2,200 matching records were analyzed, yielding about 211 patients for whom 365 days of continuous claim data were available before and after the test. Based on these data, consultants for CNS Response assessed the performance of physicians before and after testing. Findings include:

- Significant changes in physician prescribing behavior: approximately 92% of physicians receiving PEER Outcome reports changed pharmacotherapy strategies post-test, with over half changing every single medication.

- Increased proportion of generic prescribing: generic utilization increased 32% after receipt of PEER Outcome reports.

Medco research performed an analysis of this tested group against a control cohort of patients in its database matched by age, sex, disease chronicity and prescription profile.

- The primary endpoint of the analysis was to measure impact on healthcare utilization, with a 25% reduction in health care costs experienced for those in the PEER group versus those in the control cohort. However, because the claim sample size was small (only 29 health care records), the reduction did not reach statistical significance.

- Drug mix: a significantly higher proportion of older medications were utilized by physicians in the tested group, with generally fewer SSRIs and Atypical Antipsychotics, and categorical increases in MAOI and Tricyclic class antidepressants, and certain stimulants.

Eating Disorders Study: We published in the Neuropsychiatric Disease and Treatment, the journal of the International Neuropsychiatric Association (INA), a paper entitled "Retrospective Chart Review of a Referenced EEG Database in Assisting Medication Selection for Treatment of Depression in Patients with Eating Disorders." The physicians reviewed two-year pre-treatment data and between two- to five-year follow-up data, found that study patients experienced significantly decreased depressive symptoms and overall 53 percent fewer hospitalization days, which significantly reduced overall healthcare costs. In addition, according to the study, the wide variety of medications successfully used to treat study patients suggests there is no single class of medications for treating eating disorders. Instead, by developing individual treatment regimens, correlated to a patient's unique neurophysiology, physicians were able to achieve significant reductions in trial-and-error practice. The subjects had previously failed an average of 5.7 medications over an average of nine years.

- The study group focused on 22 eating disorders patients with a median age of 21 years. The average age of onset of eating disorders symptoms was 15.6 years. The primary comorbid diagnosis for each patient included either major depressive disorder (MDD) for 18 (82%) of the patients or bipolar disorder (BPD) for four (18%) of the patients. Additionally, 12 individuals were diagnosed with comorbid obsessive-compulsive disorder (OCD), three with attention deficit disorder (ADHD), five with past alcohol abuse/dependence, six with generalized anxiety disorder (GAD), and one with post-traumatic stress disorder (PTSD). According to the study:

  - Not only did most of the patients' depression and severity scores normalize quickly and significantly, but they also continued to improve during the two-to-five-year follow-up period.

  - As early as six months from starting treatment, 11 patients (50%) reported complete remission of depression symptoms, nine reported mild depression symptoms, and two remained moderately depressed.

  - In total, prior to physician use of PEER Outcome data, 18 patients (82%) had inpatient hospitalizations; only seven (32%) required hospitalizations in the two- to five-year follow-up period, which resulted in shorter stays and less intensive treatment (e.g. partial hospitalization versus inpatient).

Polypharmacy Paper: We published an additional paper in Neuropsychiatric Disease and Treatment, the journal of the (INA) entitled "Polypharmacy Or Medication Washout: An Old Tool Revisited". The paper includes a comparison of the advantages and risks from using medication washout versus polypharmacy with treatment-resistant patients. Polypharmacy is a common medical practice in which physicians prescribe additional psychiatric medications on top of previous medications already being used for a patient. This can result in patients being on too many drugs with the potential for harmful side effects. When done appropriately, washing medications out of select patients can be valuable in supporting better patient diagnosis and assessing medication needs, and can reduce the risks resulting from unknown drug interactions. While some patients will still need more than one medication as part of their treatment regimen, the ultimate goal is to determine which medications are necessary and effective for an individual patient. The paper highlights previous study findings and current data related to medication washout and polypharmacy, including:

- A recently reported study, Combining Medication to Enhance Depression Outcomes (CO-MED), funded by the National Institutes of Health, started patients on several antidepressants (with synergistic pharmacological effects) at the same time. The study findings suggest that for a significant number of patients with major depression, polypharmacy adds to the side effect burden without an increase in efficacy.

- A recent study of 659 depressed patients found that their rate of cardiovascular problems increased from 8.8 percent to 30.7 percent after only six weeks of polypharmacy.

- According to an Army report released in 2010, between 2006 and 2009, 101 soldiers died as a result of multiple drug toxicity while under the care of the Army's Wounded Warrior Transition Units.

- Use of polypharmacy in the elderly can lead to morbidity and mortality. As early as 1992, it was reported that psychotropic agents are the most commonly misused drugs in the elderly and are associated with increased illness severity, hospitalizations, number of physician visits, as well as other issues.

- In a study of 2,009 treatment-resistant patients who underwent total medication washout, only five patients (0.25%) discontinued the washout process due to either rebounding of their original mood disorder or discontinuation symptoms, while an additional 15 (0.75%) complained of an adverse response but continued the washout. Most of the adverse events were related to mild or moderate discontinuation symptoms with no mortality or serious morbidity in the patients' functioning.

Product Development

Within the past year significant changes have been made to the company's product architecture and database, as well as refinement of its market focus with physicians and payers. Accordingly, the company has introduced PEER Online™ as its cloud-based platform for physicians and the PEER Outcome™ Report as its output. The designation rEEG® will continue to be used in reference to the company's original database, but not to its services or output. Significant updates to the outcome database have occurred over the past year, including:

- Significant expansion from the current 17,000 endpoint database, based on receipt of hundreds of new patient outcomes from network physicians. With the addition of approximately 2,000 new subjects under an Investigational Device project with the U.S. Military, the PEER Outcome database has the potential to more than double during 2012.

- The Company is upgrading its normative database to improve the robustness and utility of its findings, using the Neuroguide platform from Applied Neurosciences Inc. In addition to an improved normative dataset and significantly more variables for characterizing neurophysiology (10 times more than our current database), this platform offers the opportunity for improved pattern recognition and display of three-dimensional findings from quantitative EEG through LORETA, a modeling capability which analyzes deeper structures within the brain.

- Acquisition of new EEG markers for response to non-drug therapies (see TMS discussion in Intellectual Property, below)

Use of PEER Online Technology in Pharmaceutical Development

In addition to its utility in providing psychiatrists and other physicians with medication sensitivity guidance, PEER Online technology provides us with significant opportunities in the area of pharmaceutical development. In the future, we aim to use our proprietary data and processes to advance central nervous system (CNS) pharmaceutical development and economics, in one or more of the following ways:

- **Enrichment**: Selecting patients for clinical trial who not only have the symptoms of interest, but are shown by PEER Report screenings as likely to respond to the developer's drug. An oft-cited example is the antidepressant Prozac, which failed several clinical trials before it achieved success in two separate trials. The ability to design trials in which exclusion criteria identify and exclude patients who are clearly resistant, as determined by PEER Reports, has the potential to sharpen patient focus and productivity in clinical trials of psychotropic medications.

- **Repositioning**: PEER Reports may suggest new applications/indications of existing medications. For example, Selective Serotonin Reuptake Inhibitor Antidepressants (SSRI's) are now commonly given by primary care physicians for depression and other complaints, but often produce unwanted side effects or inadequate results. The ability to define individual neurometrics for patients, who respond better to tricyclics (TCA's), or combinations of TCA's and stimulants, offers the potential for new indications for existing compounds.

- **Salvage**: Resuscitation of medications that failed phase II or III studies. One example of this opportunity is Sanofi-Aventis' unsuccessful PMA filing for Rimonabant, a promising anti-obesity/cardio-metabolic compound which was denied approval in the U.S. due to central nervous system side-effects in their clinical trial populations. Being able to screen out trial participants with resistance to a certain medication is an application for PEER Reports, and could create "theranostic" products (where an indication for use is combined with PEER Reports) for compounds which have failed to receive broader approval.

- **New Combinations**: Unwanted adverse effects occur with medications in fields from cancer to hepatitis. The ability to improve these medications, in combination with psychotropics, may improve safety, compliance, and sometimes, patient outcomes.

- **Decision Support**: Improved understanding supports improved decision making at all levels of pharmaceutical development.

Competition

Comparable Companies

Although there are no companies offering a service directly comparable to PEER Online services, the following companies might be noted as pursuing similar strategies:

- GENOMIC HEALTH, Inc. is a life science company focused on the development and commercialization of genomic-based clinical laboratory services for cancer that allow physicians and patients to make individualized treatment decisions.

- ASPECT MEDICAL SYSTEMS, INC. (now part of Covidien) is developing a specific EEG measurement system that indicates a patient's likely response to some antidepressant medications.

- BRAIN RESOURCE COMPANY is an Australian Clinical Research Organization (CRO) and neurosciences company focused on personalized medicine solutions for patients, clinicians, pharmaceutical trials and discovery research.

- IBM Corporation entered the field of clinical decision support with the launch of its Watson product, a natural language artificial intelligence system. The supercomputer-based software can scan information in 1 million books or about 200 million pages of data, analyze it and respond with answers in less than three seconds, according to IBM. Watson will sort through large amounts of electronic health records and unstructured medical data to help doctors and nurses provide recommendations on treatment plans.

Intellectual Property

PEER Online Patents

We have five issued U.S. Patents which cover the process involved in our PEER Online service. In addition, we believe these patents cover the analytical methodology we use with any form of neurophysiology measurement including SPECT (Single Photon Emission Computed Tomography), fMRI (Functional Magnetic Resonance Imaging), PET (Positron Emission Tomography), CAT (Computerized Axial Tomography), and MEG (Magnetoencephalography). We do not currently have data on the use of such alternate measurements, but we believe they may, in the future, prove to be useful to guide therapy in a manner similar to rEEG. We have also filed patent applications for our technology in various U.S. and foreign jurisdictions, and have issued patents in Europe, Mexico, Australia and Israel.

During 2009 and 2011, we were awarded additional process patents for use of PEER Online technology in drug discovery, including clinical trial and drug efficacy studies. In addition, we successfully defended our patents by requesting reexamination of a patent issued to Aspect Medical (now Covidien), resulting in a reduction and narrowing of claims awarded under the previously issued Aspect patents.

rEEG Trademarks

"Referenced-EEG" and "rEEG" are registered trademarks of CNS California in the United States. We will continue to expand our brand names and our proprietary trademarks worldwide as our operations expand. We have trademarked PEER Online and PEER Outcome Reports and expect to have them registered in due course.

PEER Online Database

The PEER Online database consists of over 17,000 medication trials across over 2,000 patients who had psychiatric or addictive problems. The PEER Online database is maintained in two parts:

1. The QEEG Database

The QEEG Database includes EEG recordings and neurometric data derived from analysis of these recordings. This data is collectively known as the QEEG Data. QEEG or "Quantitative EEG" is a standard measure that adds modern computer and statistical analyses to traditional EEG studies. We utilize two separate QEEG databases which provide statistical and normative information in the PEER Outcome Report process.

2. The Clinical Outcomes Database

The Clinical Outcomes Database consists of physician provided assessments of the clinical long-term outcomes (average of 405 days) of patients and their associated medications. The clinical outcomes of patients are recorded using an industry-standard outcome rating scale, the Clinical Global Impression Improvement scale ("CGI-I"). The CGI-I requires a clinician to rate how much the patient's illness has improved or worsened relative to a baseline state. A patient's illness is compared to change over time and rated as: very much improved, much improved, minimally improved, no change, minimally worse, much worse, or very much worse.

The format of the data is standardized and that standard is enforced at the time of capture by a software application. Outcome data is input into the database by the treating physician or in some cases, their office staff. Each Physician has access to his/her own patient data through the software tool that captures clinical outcome data.

We consider the information contained in the PEER Online database to be a valuable trade secret and are diligent about protecting such information. The PEER Online database is stored on a secure server and only a limited number of employees have access to it.

Transcranial Magnetic Stimulation

In November 2011, we acquired a neurometric platform, and other intellectual property, which may help physicians better understand positive or negative patient response to Transcranial Magnetic Stimulation (TMS). The data is expected to be available to physicians through our PEER Online platform in early 2012.

TMS is a non-invasive outpatient procedure that uses magnetic fields to stimulate areas of the brain thought to control mood. TMS, which is approved by the U.S. Food and Drug Administration and offered approximately 300 psychiatrists nationwide, is sometimes used as an alternative treatment for patients who have failed one or more antidepressants for the treatment of depression. While treatment periods vary by patient, a typical treatment regime generally involves 20 to 30 treatments over a four to six week period.

The TMS responsivity data, which is based on an EEG, helps physicians learn how patients with similar EEG patterns responded to TMS, thereby enabling them to more effectively guide patients most likely to benefit from this treatment and reduce expenditures on patients for whom TMS is not likely to be an effective solution for their depression.

Research and Development

We plan to continue to enhance, refine and improve the accuracy of our PEER Online database and PEER Outcome Reports through expansion of the number of medications covered by our PEER Reports, expansion of our neurometrics, refinement of our report generating system, and by reducing the time to turnaround a report to the physician. Research and Product Development expenses during the fiscal years ended September 30, 2011 and 2010 were $924,800 and $1,120,500 respectively.

Government Regulation

The FDA informed us that it believes our rEEG service, and its successor, now called PEER Online, constitutes a medical device which is subject to regulation by the FDA, requiring pre-market approval or 510(k) clearance by the FDA pursuant to the Federal Food, Drug and Cosmetic Act (the "Act") before our service can be marketed or sold.

In early 2010, based upon written guidance from the FDA's Center for Devices and Radiological Health ("Center"), we submitted 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 in order 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 a premarket approval application (PMA) and obtain approval before our rEEG service can be marketed legally, unless it is otherwise reclassified. The Company has filed an appeal for reconsideration of this finding based on material product modifications and additional evidence. For example, the Company received in June, 2011, a response to its outstanding Freedom of Information Act request for original copies of the predicate filings, which the Company believes confirms its position that the predicate devices were cleared for the same intended use as the rEEG service.

In December 2010, and again in September, 2011, the Company met with Center officials to determine whether FDA had or would soon be developing a regulatory pathway for clinical decision support services such as rEEG. In the latter meeting, the Company provided a detailed outline of its PEER Outcome registry, a published, transparent repository of individual medication response reports which reference known electrophysiology variables. Application of these published data can be performed manually, much like tables in medical journals, and do not meet the traditional definition of a regulated medical device.

Following its September, 2011, meeting with Center officials, the Company successfully registered its PEER Outcome database as a Class I Exempt Device within the category of Medical Device Data System, Section 860.6310.

At the same time, the Company continued its engagement with Center staff over the potential for a regulatory pathway for PEER Online as a Class II medical device, based on the Center's recommendation that military use of PEER Online move forward under an Investigational Device Exemption (IDE) in order to provide additional data to support a successful 510(k) filing.

We currently intend to continue marketing as a non-device cloud-based neurometric information service branded as PEER Outcome Reports, under our Class I registration, while we pursue a military IDE process during 2012. If we continue to market our PEER Outcomes and the FDA determines that we should be subject to further FDA regulation as a Class II device, it could seek enforcement action against us based upon its position that our PEER Outcome Reports constitute a medical device as a result of which we could be forced to cease our marketing activities and pay fines and penalties which could have a material adverse impact on us.

In addition to the foregoing, federal and state laws and regulations relating to the sale of our Neurometric Information Services are subject to future changes, as are administrative interpretations of regulatory agencies. In the event that federal and state laws and regulations change, we may need to incur additional costs to seek government approvals for the sale of our Neurometric Information Services.

In the future, we may seek approval for medications or combinations of medications for new indications, either with corporate partners, or potentially, on our own. The development and commercialization of medications for new indications is subject to extensive regulation by the U.S. Federal government, principally through the FDA and other federal, state and governmental authorities elsewhere. Prior to marketing any central nervous system medication, and in many cases prior to being able to successfully partner a central nervous system medication, we will have to conduct extensive clinical trials at our own expense to determine safety and efficacy of the indication that we are pursuing.

Employees

As of November 15, 2011, we had approximately 13 full-time and 6 part-time employees, and 3 independent contractors. We offer all full-time employees medical insurance, dental insurance and paid vacation. We believe that our relations with our employees are good. None of our employees belong to a union.

ITEM 1A. Risk Factors

INVESTING IN CNS RESPONSE, INC. INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS REPORT BEFORE PURCHASING OUR COMMON STOCK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING US. ADDITIONAL RISKS AND UNCERTAINTIES THAT WE ARE UNAWARE OF, OR THAT WE CURRENTLY DEEM IMMATERIAL, ALSO MAY BECOME IMPORTANT FACTORS THAT AFFECT US. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS COULD BE MATERIALLY AND ADVERSELY AFFECTED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MAY LOSE SOME OR ALL OF THE MONEY YOU PAID TO PURCHASE OUR COMMON STOCK.

Risks Related to Our Company

We need immediate additional funding to support our operations and capital expenditures, which may not be available to us. This lack of availability could have a material adverse effect on our business. Our continued operating losses and limited capital raise substantial doubt about our ability to continue as a going concern.

We have not generated significant revenues or become profitable, may never do so, and may not generate sufficient working capital to cover costs of operations. Our continued operating losses and limited capital raise substantial doubt about our ability to continue as a going concern. Until we can generate a sufficient amount of revenues to finance our operations and capital expenditures, we have to finance our cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations. As of September 30, 2011, we had approximately $93 thousand in cash and cash equivalents at hand. While we received $0.83 million from the sale of subordinated secured convertible Bridge Notes ("2011 Bridge Notes") and warrants between October 12 and November 17, as of November 21, 2011, we had approximately $384 thousand in cash and cash equivalents at hand. We therefore need additional funds immediately to continue our operations and will need substantial additional funds before we can increase demand for our PEER Online services (formerly known as 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, 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. Our financial statements include an opinion of our auditors that our continued operating losses and limited capital raise substantial doubt about our ability to continue as a going concern.

Our liabilities exceed our assets; we have a working capital deficit. Our secured convertible notes, which are payable during 2012, are secured by all of our assets.

As of September 30, 2011, we had liabilities of $11.8 million and assets of only $0.4 million. We had a working capital deficit of $11.5 million. Included in our liabilities are $4.8 million in derivative liabilities (as determined under ASC 815) associated with our convertible notes and associated warrants. Furthermore, as of September 30, 2011, we have outstanding senior and subordinated secured convertible notes in an aggregate principal amount of $5.5 million which were originally repayable starting October 1, 2011. All of these convertible notes have been amended by the Company and holders of a majority in principal amount of each such series of notes to extend the maturity date to October 1, 2012. The senior notes are secured by substantially all of our assets. In addition, the subordinated notes issued between January and April 2011 are now also secured by substantially all of our assets, enjoying a second position security interest. The holders of our senior and subordinated secured convertible notes have agreed to convert their notes in connection with a public offering which yields gross proceeds of at least $10 million. If we are not successful in consummating such an offering our convertible notes will remain outstanding. Additionally, since October 12, 2011, we have issued $830,000 in subordinated secured convertible notes ("2011 Bridge Notes"). Holders of these notes have the option to redeem or convert their notes at the time of a public offering which yields gross proceeds of at least $10 million.

We currently have no resources to repay such senior and subordinated secured notes, which include the newest Bridge Notes, and we will be required to either raise additional funds or seek conversion of these notes to avoid a default. If we default on our secured notes, the holders of the secured notes will be entitled to take all of our assets, in satisfaction of the obligation we have to them, thereby leaving no value for the holders of common stock.

We have a history of operating losses.

We are a company with a limited operating history. Since our inception, we have incurred significant operating losses. As of September 30, 2011, our accumulated deficit was approximately $42.2 million. Our future capital requirements will depend on many factors, such as the risk factors described in this section, including our ability to maintain our existing cost structure and to execute our business and strategic plans as currently conceived. Even if we achieve profitability, we may be unable to maintain or increase profitability on a quarterly or annual basis.

If our PEER Reports do not gain widespread market acceptance, we will not sell adequate services to maintain our operations.

We have developed a methodology that aids psychiatrists and other physicians in selecting appropriate and effective medications for patients with certain behavioral or addictive disorders based on physiological traits of the patient's brain and information contained in a proprietary database that has been developed over the last twenty years. We began selling reports, referred to as rEEG Reports, based on our methodology in 2000, these reports have since been rebranded as PEER Outcome Reports. To date, we have not received widespread market acceptance of the usefulness of our PEER Reports in helping psychiatrists and other physicians inform their treatment strategies for patients suffering from behavioral and/or addictive disorders, and we currently rely on a limited number of employees to market and promote our PEER Reports. To grow our business, we will need to develop and introduce new sales and marketing programs and clinical education programs to promote the use of our PEER Reports by psychiatrists and other physicians and hire additional employees for this purpose. If we do not implement these new sales and marketing and education programs in a timely and successful manner, we may not be able to achieve the level of market awareness and sales required to expand our business, which could also negatively impact our stock price.

Our PEER Reports may not be as effective as we believe them to be, which could limit or prevent us from growing our revenues.

Our belief in the efficacy of our PEER Online technology is based on a limited number of studies. Such results may not be statistically significant, and may not be indicative of the long-term future efficacy of the information we provide. Controlled scientific studies, including those that have been announced and that are planned for the future, may yield results that are unfavorable or demonstrate that our services, including our PEER Reports, are not clinically useful. While we have not experienced such problems to date, if the initially indicated results cannot be successfully replicated or maintained over time, utilization of services based on our PEER Online technology, including the delivery of our PEER Reports, may not increase as we anticipate, which would harm our operating results and stock price. In addition, if we fail to upgrade our PEER Online database to account for new medications that are now available on the market, psychiatrists and other physicians may be less inclined to utilize our services if they believe that our reports only provide information about older treatment options, which would further harm our operating results and stock price.

The United States Food & Drug Administration (FDA) believes that rEEG, and potentially our PEER Online service constitutes a medical device, which is subject to regulation by the FDA. As we continue to market our PEER Online service, there is risk that the FDA will seek enforcement action against us. The FDA has informed us that our marketing of our PEER Online services without prior approval or re-classification by the FDA constitutes a violation of the Federal Food, Drug and Cosmetic Act.

Since April of 2008, we have been in a dialogue with the FDA regarding its position that our rEEG service, and its successor, now called PEER Online, 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 a medical device. 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 written guidance from the FDA's Center for Devices and Radiological Health ("Center"), 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. The company has filed an appeal for reconsideration of this finding based on material product modifications and additional evidence. For example, the Company received in June 2011 a response to its outstanding Freedom of Information Act request for original copies of the predicate filings, which the Company believes to confirm its position that the predicate devices were cleared for the same intended use as the rEEG service.

In December 2010 and again in September 2011, the Company met with Center officials to determine whether FDA had or would soon be developing a coherent regulatory pathway for clinical decision support services such as rEEG. In the latter meeting, the Company provided a detailed outline of its PEER Outcome registry, a published, transparent repository of individual medication response reports which reference known electrophysiology variables.

The Company successfully registered its PEER Outcome database as a Class I Exempt Device within the category Medical Device Data System, Section 860.6310, following the meeting.

The Company continued its engagement with Center staff over the potential for a regulatory pathway for PEER Online as a Class II medical device, based on the Center's recommendation that military use of PEER Online move forward under an Investigational Device Exemption (IDE) in order to provide additional data to support a successful 510(k) filing.

We currently intend to continue marketing as a non-device cloud-based neurometric information service branded as PEER Outcome Reports, under our Class I registration, while we pursue a military IDE process during 2012. If we continue to market our PEER Outcomes and the FDA determines that we should be subject to further FDA regulation as a Class II device, it could seek enforcement action against us based upon its position that our PEER Outcome Reports constitute a medical device, as a result of which, we could be forced to cease our marketing activities and pay fines and penalties which could have a material adverse impact on us.

If government and third-party payers fail to provide coverage and adequate payment rates for treatments that are guided by our PEER Reports, our revenue and prospects for profitability will be harmed.

Our future revenue growth will depend in part upon the availability of reimbursement from third-party payers for psychiatrists and other physicians who use our PEER Outcome Reports to guide the treatment of their patients. Such third-party payers include government health programs such as Medicare and Medicaid, managed care providers, private health insurers and other organizations. These third-party payers are increasingly attempting to contain healthcare costs by demanding price discounts or rebates and limiting both coverage on which procedures they will pay for and the amounts that they will pay for new procedures. As a result, they may not cover or provide adequate payment for treatments that are guided by our PEER Reports, which will discourage psychiatrists and other physicians from utilizing the information services we provide. We may need to conduct studies in addition to those we have already announced to demonstrate the cost-effectiveness of treatments that are guided by our products and services to such payers' satisfaction. Such studies might require us to commit a significant amount of management time and financial and other resources. Adequate third-party reimbursement might not be available to enable us to realize an appropriate return on investment in research and product development, and the lack of such reimbursement could have a material adverse effect on our operations and could adversely affect our revenues and earnings.

Regulations are constantly changing, and in the future our business may be subject to additional regulations that increase our compliance costs.

Federal, state and foreign laws and regulations relating to the sale of our PEER Outcome Reports are subject to future changes, as are administrative interpretations of regulatory agencies. If we fail to comply with applicable federal, state or foreign laws or regulations, we could be subject to enforcement actions, including injunctions preventing us from conducting our business, withdrawal of clearances or approvals and civil and criminal penalties. In the event that federal, state, and foreign laws and regulations change, we may need to incur additional costs to seek government approvals, in addition to the clearance we are currently seeking from the FDA (discussed above), in order to sell or market our PEER Online service. There is no guarantee that we will be able to obtain such approvals in a timely manner or at all, and as a result, our business would be significantly harmed.

Our Clinical Services business generates the majority of our revenue, and adverse developments in this business could negatively impact our operating results.

Our Clinical Services business, which we view as ancillary to our core Neurometric Information Services business, currently generates the majority of our revenue and is operated by our wholly-owned subsidiary, NTC. In the event that NTC is unable to sustain the current demand for its services because, for instance, we are unable to maintain favorable and continuing relations with our clients and referring psychiatrists and other physicians or if Daniel Hoffman, the Medical Director at NTC and our Chief Medical Officer, were no longer associated with NTC, our revenues could significantly decline, which could adversely impact our operating results and our ability to implement our growth strategy.

Our operating results may fluctuate significantly and our stock price could decline or fluctuate if our results do not meet the expectation of analysts or investors.

Management expects that we will experience substantial variations in our operating results from quarter to quarter. We believe that the factors which influence this variability of quarterly results include, without limitation:

- the use of and demand for PEER Reports and other products and/or services that we may offer in the future that are based on our patented methodology;
- the effectiveness of new marketing and sales programs;
- turnover among our employees;
- changes in management;
- the introduction of products or services that are viewed in the marketplace as substitutes for the services we provide;
- communications published by industry organizations or other professional entities in the psychiatric and physician community that are unfavorable to our business;
- the introduction of regulations which impose additional costs on or impede our business; and
- the timing and amount of our expenses, particularly expenses associated with the marketing and promotion of our services, the training of physicians and psychiatrists in the use of our PEER Reports, and research and development.

As a result of fluctuations in our revenue and operating expenses that may occur, management believes that period-to-period comparisons of our results of operations are not a good indication of our future performance. It is possible that in some future quarter or quarters, our operating results will be below the expectations of securities analysts or investors. In that case, our common stock price could fluctuate significantly or decline.

If we do not maintain and expand our relationships in the psychiatric and physician community, our growth will be limited and our business could be harmed. If psychiatrists and other physicians do not recommend and endorse our products and services, we may be unable to increase our sales, and in such instances our profitability would be harmed.

Our relationships with psychiatrists and other physicians are critical to the growth of our Neurometric Information Services business. We believe that these relationships are based on the quality and ease of use of our PEER Reports, our commitment to the behavioral health market, our marketing efforts, and our presence at tradeshows. Any actual or perceived diminution in our reputation or the quality of our PEER Reports, or our failure or inability to maintain our commitment to the behavioral health market and our other marketing and product promotion efforts could damage our current relationships, or prevent us from forming new relationships, with psychiatrists and other physicians and cause our growth to be limited and our business to be harmed.

To sell our PEER Reports, psychiatric professionals must recommend and endorse them. We may not obtain the necessary recommendations or endorsements from this community. Acceptance of our PEER Reports depends on educating psychiatrists and other physicians as to the benefits, clinical efficacy, ease of use, revenue opportunity, and cost-effectiveness of our PEER Reports and on training the medical community to properly understand and utilize our PEER Reports. If we are not successful in obtaining the recommendations or endorsements of psychiatrists and other physicians for our PEER Reports, we may be unable to increase our sales and profitability.

Negative publicity or unfavorable media coverage could damage our reputation and harm our operations.

In the event that the marketplace perceives our PEER Reports as not offering the benefits which we believe they offer, we may receive significant negative publicity. This publicity may result in litigation and increased regulation and governmental review. If we were to receive such negative publicity or unfavorable media attention, whether warranted or unwarranted, our ability to market our PEER Reports would be adversely affected, pharmaceutical companies may be reluctant to pursue strategic initiatives with us relating to the development of new products and services based on our PEER Online technology, we may be required to change our products and services and become subject to increased regulatory burdens, and we may be required to pay large judgments or fines and incur significant legal expenses. Any combination of these factors could further increase our cost of doing business and adversely affect our financial position, results of operations and cash flows.

If we do not successfully generate additional products and services from our patented methodology and proprietary database, or if such products and services are developed but not successfully commercialized, then we could lose revenue opportunities.

Our primary business is the sale of PEER Reports to psychiatrists and other physicians based on our PEER Online methodology and proprietary database. In the future, we may utilize our patented methodology and proprietary database to produce pharmaceutical advancements and developments. For instance, we may use our patented methodology and proprietary database to identify new medications that are promising in the treatment of behavioral health disorders, identify new uses of medications which have been previously approved, and identify new patient populations that are responsive to medications in clinical trials that have previously failed to show efficacy in United States Food & Drug Administration (FDA) approved clinical trials. The development of new pharmaceutical applications that are based on our patented methodology and proprietary database will be costly, since we will be subject to additional regulations, including the need to conduct expensive and time consuming clinical trials.

In addition, to successfully monetize our pharmaceutical opportunity, we will need to enter into strategic alliances with biotechnology or pharmaceutical companies that have the ability to bring to market a medication, an ability which we currently do not have. We maintain no pharmaceutical manufacturing, marketing or sales organization, nor do we plan to build one in the foreseeable future. Therefore, we are reliant upon approaching and successfully negotiating attractive terms with a partner who has these capabilities. No guarantee can be made that we can do this on attractive terms or at all. If we are unable to find strategic partners for our pharmaceutical opportunity, our revenues may not grow as quickly as we desire, which could lower our stock price.

Our industry is highly competitive, and we may not be able to compete successfully, which could result in price reductions and decreased demand for our products.

The healthcare business in general, and the behavioral health treatment business in particular, are highly competitive. In the event that we are unable to convince physicians, psychiatrists and patients of the efficacy of our products and services, individuals seeking treatment for behavioral health disorders may seek alternative treatment methods, which could negatively impact our sales and profitability.

In the event that we pursue our pharmaceutical opportunities, we or any development partners that we partner with will likely need to conduct clinical trials. If such clinical trials are delayed or unsuccessful, it could have an adverse effect on our business.

We have no experience conducting clinical trials of psychiatric medications and in the event we conduct clinical trials, we will rely on outside parties, including academic investigators, outside consultants and contract research organizations to conduct these trials on our behalf. We will rely on these parties to assist in the recruitment of sites for participation in clinical trials, to maintain positive relations with these sites, and to ensure that these sites conduct the trials in accordance with the protocol and our instructions. If these parties renege on their obligations to us, our clinical trials may be delayed or unsuccessful.

In the event we conduct clinical trials, we cannot predict whether we will encounter problems that will cause us or regulatory authorities to delay or suspend our clinical trials or delay the analysis of data from our completed or ongoing clinical trials. In addition, we cannot assure you that we will be successful in reaching the endpoints in these trials, or if we do, that the FDA or other regulatory agencies will accept the results.

Any of the following factors, among others, could delay the completion of clinical trials, or result in a failure of these trials to support our business, which would have an adverse effect on our business:

- delays or the inability to obtain required approvals from institutional review boards or other governing entities at clinical sites selected for participation in our clinical trials;
- delays in enrolling patients and volunteers into clinical trials;
- lower than anticipated retention rates of patients and volunteers in clinical trials;
- negative results from clinical trials for any of our potential products; and
- failure of our clinical trials to demonstrate the efficacy or clinical utility of our potential products.

If we determine that the costs associated with attaining regulatory approval of a product exceed the potential financial benefits or if the projected development timeline is inconsistent with our determination of when we need to get the product to market, we may choose to stop a clinical trial and/or development of a product.

We may fail to successfully manage and maintain the growth of our business, which could adversely affect our results of operations.

As we continue expanding our commercial operations, this expansion could place significant strain on our management, operational, and financial resources. To manage future growth, we will need to continue to hire, train, and manage additional employees, particularly a specially trained sales force to market our PEER Reports.

In addition, we have maintained a small financial and accounting staff, and our reporting obligations as a public company, as well as our need to comply with the requirements of the Sarbanes-Oxley Act of 2002, and the rules and regulations of the SEC will continue to place significant demands on our financial and accounting staff, on our financial, accounting and information systems and on our internal controls. As we grow, we will need to add additional accounting staff and continue to improve our financial, accounting and information systems and internal controls in order to fulfill our reporting responsibilities and to support expected growth in our business. Our current and planned personnel, systems, procedures and controls may not be adequate to support our anticipated growth or management may not be able to effectively hire, train, retain, motivate and manage required personnel. Our failure to manage growth effectively could limit our ability to achieve our marketing and commercialization goals or to satisfy our reporting and other obligations as a public company.

We may not be able to adequately protect our intellectual property, which is the core of our business.

We consider the protection of our intellectual property to be important to our business prospects. We currently have four issued U.S. patents, as well as issued patents in Australia, Israel, Europe and Mexico and we have filed separate patent applications in the United States and multiple foreign jurisdictions.

In the future, if we fail to file patent applications in a timely manner, fail to pay applicable maintenance fees on issued patents, or in the event we elect not to file a patent application because of the costs associated with patent prosecution, we may lose patent protection that we may have otherwise obtained. The loss of any proprietary rights which are obtainable under patent laws may result in the loss of a competitive advantage over present or potential competitors, with a resulting decrease in revenues and profitability for us.

With respect to the applications we have filed, there is no guarantee that the applications will result in issued patents, and further, any patents that do issue may be too narrow in scope to adequately protect our intellectual property and provide us with a competitive advantage. Competitors and others may design around aspects of our technology, or alternatively may independently develop similar or more advanced technologies that fall outside the scope of our claimed subject matter but that can be used in the treatment of behavioral health disorders.

In addition, even if we are issued additional patents covering our products, we cannot predict with certainty whether or not we will be able to enforce our proprietary rights, and whether our patents will provide us with adequate protection against competitors. We may be forced to engage in costly and time consuming litigation or reexamination proceedings to protect our intellectual property rights, and our opponents in such proceedings may have and be willing to expend, substantially greater resources than we are able to. In addition, the results of such proceedings may result in our patents being invalidated or reduced in scope. These developments could cause a decrease in our operating income and reduce our available cash flow, which could harm our business and cause our stock price to decline.

We also utilize processes and technology that constitute trade secrets, such as our PEER Online database, and we must implement appropriate levels of security for those trade secrets to secure the protection of applicable laws, which we may not do effectively. In addition, the laws of many foreign countries do not protect proprietary rights as fully as the laws of the United States.

While we have not had any significant issues to date, the loss of any of our trade secrets or proprietary rights which may be protected under the foregoing intellectual property safeguards may result in the loss of our competitive advantage over present and potential competitors.

Confidentiality agreements with employees, licensees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we rely in part on confidentiality provisions in our agreements with employees, licensees, treating physicians and psychiatrists and others. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Moreover, policing compliance with our confidentiality agreements and non-disclosure agreements, and detecting unauthorized use of our technology is difficult, and we may be unable to determine whether piracy of our technology has occurred. In addition, others may independently discover our trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

We depend heavily upon secure access to, and secure transfer of data via, the internet in exchanging data with customers. Any security breaches could result in unauthorized access to sensitive patient data, our intellectual property and other confidential business information. Any damage to, or failure of, our central analytical database could adversely affect our ability to provide our services. For any of the foregoing or related reasons, customers may curtail or stop using our services and we may incur significant legal and financial exposure and liabilities.

We depend heavily on secure access to, and secure transfer of data via, the internet in the generation of our PEER Outcome Reports and other data exchange with our customers. We rely on services provided by third parties to store, transmit and process data in our central neurometric database. Security breaches could expose us to a risk of losing data and result in litigation and possible liability. Security measures taken by us or by such third party service providers may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance, fraud or otherwise, during transfer or processing of data or at any time, and result in someone obtaining unauthorized access to sensitive patient information, our intellectual property, other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we or our third party service providers may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, disrupt our business, lead to legal liability and severely curtail future revenue.

In addition, any damage to, or failure of, our central neurometric database and the server on which it resides could result in interruptions in our ability to provide PEER Outcome Reports. Interruptions in our service may reduce our revenue, cause PEER Network providers to terminate their relationship with us and adversely affect our ability to attract new physicians to the PEER Network. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

Because our service is complex and we rely on third party vendors to store the data in our central neurometric database, our data and processes may be corrupted at some future time resulting in erroneous, defective or ineffective reports, which could result in unanticipated downtime in our service for PEER Network providers, resulting in harm to our reputation and our business. Since many physicians rely on our service to assist in treating their patients, any errors, defects, disruptions in service or other performance problems with our service could hurt our reputation and hurt the reputation of the physicians in our PEER Network. If that occurs, physicians could elect to terminate their relationship with us, or delay or withhold payment to us. We could lose future revenues or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation and a reduction in revenue.

Security breaches, damages or failures of the sort described above would adversely affect our ability to market our PEER Reports. In addition, pharmaceutical companies may be reluctant to pursue strategic initiatives with us relating to the development of new products and services based on our PEER Online technology, we may be required to change our products and services and become subject to increased regulatory burdens, and we may be required to pay large judgments or fines and incur significant legal expenses. Any combination of these factors could further increase our cost of doing business and adversely affect our financial position, results of operations and cash flows.

The liability of our directors and officers is limited.

The applicable provisions of the Delaware General Corporation Law and our Certificate of Incorporation and By-laws limit the liability of our directors to us and our stockholders for monetary damages for breaches of their fiduciary duties, with certain exceptions, and for other specified acts or omissions of such persons. In addition, the applicable provisions of the Delaware General Corporation Law and of our Certificate of Incorporation and Bylaws, as well as indemnification agreements we have entered into with our directors, officers and certain other individuals, provide for indemnification of such persons under certain circumstances. In the event we are required to indemnify any of our directors or any other person, our financial strength may be harmed, which may in turn lower our stock price.

If we do not retain our senior management and other key employees, we may not be able to successfully implement our business strategy.

Our future success depends on the ability, experience and performance of our senior management and our key professional personnel. Our success therefore depends to a significant extent on retaining the services of George Carpenter, our Chief Executive Officer, our senior product development and clinical managers, and others. Because of their ability and experience, if we lose one or more of the members of our senior management or other key employees, our ability to successfully implement our business strategy could be seriously harmed. While we believe our relationships with our executives are good and do not anticipate any of them leaving in the near future, the loss of the services of any of our senior management could have a material adverse effect on our ability to manage our business. We do not carry key man life insurance on any of our key employees.

If we do not attract and retain skilled personnel, we may not be able to expand our business.

Our products and services are based on a complex database of information. Accordingly, we require skilled medical, scientific and administrative personnel to sell and support our products and services. Our future success will depend largely on our ability to continue to hire, train, retain and motivate additional skilled personnel, particularly sales representatives who are responsible for customer education and training and customer support. In the future, if we pursue our pharmaceutical opportunities, we will also likely need to hire personnel with experience in clinical testing and matters relating to obtaining regulatory approvals. If we are not able to attract and retain skilled personnel, we will not be able to continue our development and commercialization activities.

In the future we could be subject to personal injury claims, which could result in substantial liabilities that may exceed our insurance coverage.

All significant medical treatments and procedures, including treatment that is facilitated through the use of our PEER Reports, involve the risk of serious injury or death. While we have not been the subject of any personal injury claims for patients treated by providers using our PEER Reports, our business entails an inherent risk of claims for personal injuries, which are subject to the attendant risk of substantial damage awards. We cannot control whether individual physicians and psychiatrists will properly select patients, apply the appropriate standard of care, or conform to our procedures in determining how to treat their patients. A significant source of potential liability is negligence or alleged negligence by physicians treating patients with the aid of the PEER Reports that we provide. There can be no assurance that a future claim or claims will not be successful or, including the cost of legal defense, will not exceed the limits of available insurance coverage.

We currently have general liability and medical professional liability insurance coverage for up to $5 million per year for personal injury claims. We may not be able to maintain adequate liability insurance, in accordance with standard industry practice, with appropriate coverage based on the nature and risks of our business, at acceptable costs and on favorable terms. Insurance carriers are often reluctant to provide liability insurance for new healthcare services companies and products due to the limited claims history for such companies and products. In addition, based on current insurance markets, we expect that liability insurance will be more difficult to obtain and that premiums will increase over time and as the volume of patients treated by physicians that are guided by our PEER Reports increases. In the event of litigation, regardless of its merit or eventual outcome, or an award against us during a time when we have no available insurance or insufficient insurance, we may sustain significant losses of our operating capital which may substantially reduce stockholder equity in the company.

We are subject to evolving and expensive corporate governance regulations and requirements. Our failure to adequately adhere to these requirements or the failure or circumvention of our controls and procedures could seriously harm our business.

Because we are a publicly traded company we are subject to certain federal, state and other rules and regulations, including applicable requirements of the Sarbanes-Oxley Act of 2002. Compliance with these evolving regulations is costly and requires a significant diversion of management time and attention, particularly with regard to our disclosure controls and procedures and our internal control over financial reporting. Although we have reviewed our disclosure and internal controls and procedures in order to determine whether they are effective, our controls and procedures may not be able to prevent errors or frauds in the future. Faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established controls and procedures may make it difficult for us to ensure that the objectives of the control system are met. A failure of our controls and procedures to detect other than inconsequential errors or fraud could seriously harm our business and results of operations.

Our senior management's limited recent experience managing a publicly traded company may divert management's attention from operations and harm our business.

Our management team has relatively limited recent experience managing a publicly traded company and complying with federal securities laws, including compliance with recently adopted disclosure requirements on a timely basis. Our management will be required to design and implement appropriate programs and policies in responding to increased legal, regulatory compliance and reporting requirements, and any failure to do so could lead to the imposition of fines and penalties and harm our business.

Risks Related To Our Industry

The healthcare industry in which we operate is subject to substantial regulation by state and federal authorities, which could hinder, delay or prevent us from commercializing our products and services.

Healthcare companies are subject to extensive and complex federal, state and local laws, regulations and judicial decisions governing various matters such as the licensing and certification of facilities and personnel, the conduct of operations, billing policies and practices, policies and practices with regard to patient privacy and confidentiality, and prohibitions on payments for the referral of business and self-referrals. There are federal and state laws, regulations and judicial decisions that govern patient referrals, physician financial relationships, submission of healthcare claims and inducement to beneficiaries of federal healthcare programs. Many states prohibit business corporations from practicing medicine, employing or maintaining control over physicians who practice medicine, or engaging in certain business practices, such as splitting fees with healthcare providers. Many healthcare laws and regulations applicable to our business are complex, applied broadly and subject to interpretation by courts and government agencies. Our failure, or the failure of physicians and psychiatrists to whom we sell our PEER Reports, to comply with these healthcare laws and regulations could create liability for us and negatively impact our business.

In addition, the FDA regulates development, testing, labeling, manufacturing, marketing, promotion, distribution, record-keeping and reporting requirements for prescription drugs. Compliance with laws and regulations enforced by the FDA and other regulatory agencies may be required in relation to future products or services developed or used by us, in addition to the regulatory process and dialogue in which we are now engaged with the FDA (please see the risk factor on page 16 for further information). Failure to comply with applicable laws and regulations may result in various adverse consequences, including withdrawal of our products and services from the market, or the imposition of civil or criminal sanctions.

We believe that this industry will continue to be subject to increasing regulation, political and legal action and pricing pressures, the scope and effect of which we cannot predict. Legislation is continuously being proposed, enacted and interpreted at the federal, state and local levels to regulate healthcare delivery and relationships between and among participants in the healthcare industry. Any such changes could prevent us from marketing some or all of our products and services for a period of time or permanently.

We may be subject to regulatory and investigative proceedings, which may find that our policies and procedures do not fully comply with complex and changing healthcare regulations.

While we have established policies and procedures that we believe will be sufficient to ensure that we operate in substantial compliance with applicable laws, regulations and requirements, the criteria are often vague and subject to change and interpretation. We may become the subject of regulatory or other investigations or proceedings, and our interpretations of applicable laws and regulations may be challenged. The defense of any such challenge could result in substantial cost and a diversion of management's time and attention. Thus, any such challenge could have a material adverse effect on our business, regardless of whether it ultimately is successful. If we fail to comply with any applicable laws, or a determination is made that we have failed to comply with these laws, our financial condition and results of operations could be adversely affected.

Failure to comply with the Federal Trade Commission Act or similar state laws could result in sanctions or limit the claims we can make.

Our promotional activities and materials, including advertising to consumers and physicians, and materials provided to third parties for their use in promoting our products and services, are regulated by the Federal Trade Commission (FTC) under the FTC Act, which prohibits unfair and deceptive acts and practices, including claims which are false, misleading or inadequately substantiated. The FTC typically requires competent and reliable scientific tests or studies to substantiate express or implied claims that a product or service is effective. If the FTC were to interpret our promotional materials as making express or implied claims that our products and services are effective for the treatment of mental illness, it may find that we do not have adequate substantiation for such claims. Failure to comply with the FTC Act or similar laws enforced by state attorneys general and other state and local officials could result in administrative or judicial orders limiting or eliminating the claims we can make about our products and services, and other sanctions including fines.

Our business practices may be found to constitute illegal fee-splitting or corporate practice of medicine, which may lead to penalties and adversely affect our business.

Many states, including California, in which our principal executive offices are located, have laws that prohibit business corporations, such as us, from practicing medicine, exercising control over medical judgments or decisions of physicians, or engaging in certain arrangements, such as employment or fee-splitting, with physicians. Courts, regulatory authorities or other parties, including physicians, may assert that we are engaged in the unlawful corporate practice of medicine through our ownership of the Neuro-Therapy Clinic or by providing administrative and ancillary services in connection with our PEER Reports. These parties may also assert that selling our PEER Reports for a portion of the patient fees constitutes improper fee-splitting. If asserted, such claims could subject us to civil and criminal penalties and substantial legal costs, could result in our contracts being found legally invalid and unenforceable, in whole or in part, or could result in us being required to restructure our contractual arrangements, all with potentially adverse consequences to our business and our stockholders.

Our business practices may be found to violate anti-kickback, self-referral or false claims laws, which may lead to penalties and adversely affect our business.

The healthcare industry is subject to extensive federal and state regulation with respect to financial relationships and "kickbacks" involving healthcare providers, physician self-referral arrangements, filing of false claims and other fraud and abuse issues. Federal anti-kickback laws and regulations prohibit certain offers, payments or receipts of remuneration in return for (i) referring patients covered by Medicare, Medicaid or other federal health care program, or (ii) purchasing, leasing, ordering or arranging for or recommending any service, good, item or facility for which payment may be made by a federal health care program. In addition, federal physician self-referral legislation, commonly known as the Stark law, generally prohibits a physician from ordering certain services reimbursable by Medicare, Medicaid or other federal healthcare program from any entity with which the physician has a financial relationship. In addition, many states have similar laws, some of which are not limited to services reimbursed by federal healthcare programs. Other federal and state laws govern the submission of claims for reimbursement, or false claims laws. One of the most prominent of these laws is the federal False Claims Act, and violations of other laws, such as the anti-kickback laws or the FDA prohibitions against promotion of off-label uses of medications, may also be prosecuted as violations of the False Claims Act.

While we believe we have structured our relationships to comply with all applicable requirements, federal or state authorities may claim that our fee arrangements, agreements and relationships with contractors and physicians violate these anti-kickback, self-referral or false claims laws and regulations. These laws are broadly worded and have been broadly interpreted by courts. It is often difficult to predict how these laws will be applied, and they potentially subject many typical business arrangements to government investigation and prosecution, which can be costly and time consuming. Violations of these laws are punishable by monetary fines, civil and criminal penalties, exclusion from participation in government-sponsored health care programs and forfeiture of amounts collected in violation of such laws. Some states also have similar anti-kickback and self-referral laws, imposing substantial penalties for violations. If our business practices are found to violate any of these provisions, we may be unable to continue with our relationships or implement our business plans, which would have an adverse effect on our business and results of operations.

We may be subject to healthcare anti-fraud initiatives, which may lead to penalties and adversely affect our business.

State and federal governments are devoting increased attention and resources to anti-fraud initiatives against healthcare providers, taking an expansive definition of fraud that includes receiving fees in connection with a healthcare business that is found to violate any of the complex regulations described above. While to our knowledge we have not been the subject of any anti-fraud investigations, if such a claim were made defending our business practices could be time consuming and expensive, and an adverse finding could result in substantial penalties or require us to restructure our operations, which we may not be able to do successfully.

Our use and disclosure of patient information is subject to privacy and security regulations, which may result in increased costs.

In conducting research or providing administrative services to healthcare providers in connection with the use of our PEER Reports, as well as in our Clinical Services business, we may collect, use, maintain and transmit patient information in ways that will be subject to many of the numerous state, federal and international laws and regulations governing the collection, dissemination, use and confidentiality of patient-identifiable health information, including the federal Health Insurance Portability and Accountability Act (HIPAA) and related rules. The three rules that were promulgated pursuant to HIPAA that could most significantly affect our business are the Standards for Electronic Transactions, or Transactions Rule; the Standards for Privacy of Individually Identifiable Health Information, or Privacy Rule; and the Health Insurance Reform: Security Standards, or Security Rule. HIPAA applies to covered entities, which include most healthcare facilities and health plans that may contract for the use of our services. The HIPAA rules require covered entities to bind contractors like us to compliance with certain burdensome HIPAA rule requirements.

The HIPAA Transactions Rule establishes format and data content standards for eight of the most common healthcare transactions. If we perform billing and collection services on behalf of psychiatrists and other physicians, we may be engaging in one or more of these standard transactions and will be required to conduct those transactions in compliance with the required standards. The HIPAA Privacy Rule restricts the use and disclosure of patient information, requires entities to safeguard that information and to provide certain rights to individuals with respect to that information. The HIPAA Security Rule establishes elaborate requirements for safeguarding patient information transmitted or stored electronically. We may be required to make costly system purchases and modifications to comply with the HIPAA rule requirements that are imposed on us and our failure to comply may result in liability and adversely affect our business.

Numerous other federal and state laws protect the confidentiality of personal and patient information. These laws in many cases are not preempted by the HIPAA rules and may be subject to varying interpretations by courts and government agencies, creating complex compliance issues for us and the psychiatrists and other physicians who purchase our services, and potentially exposing us to additional expense, adverse publicity and liability.

Risks Relating To Our Common Stock

We currently have a limited trading volume, which results in higher price volatility for, and reduced liquidity of, our common stock.

Our shares of common stock are trading in the United States on the OTCBB under the symbol “CNSO.OB”. There is currently no broadly followed, established trading market for our common stock and an established trading market for our shares of common stock may never develop or be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. The absence of an active trading market increases price volatility and reduces the liquidity of our common stock. As long as this condition continues, the sale of a significant number of shares of common stock at any particular time could be difficult to achieve at the market prices prevailing immediately before such shares are offered. Also, as a result of this lack of trading activity, the quoted price for our common stock on the OTCBB is not necessarily a reliable indicator of its fair market value.

Furthermore, if we cease to be quoted on the OTCBB, holders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock, and the market value of our common stock would likely decline.

If and when a larger trading market for our common stock develops, the market price of our common stock is likely to be highly volatile and subject to wide fluctuations, and you may be unable to resell your shares at or above the price at which you acquired them.

The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including, but not limited to:

- quarterly variations in our revenues and operating expenses;
- developments in the financial markets and worldwide or regional economies;
- announcements of innovations or new products or services by us or our competitors;
- announcements by the government relating to regulations that govern our industry;
- significant sales of our common stock or other securities in the open market;
- variations in interest rates;
- changes in the market valuations of other comparable companies; and
- changes in accounting principles.

In the past, stockholders have often instituted securities class action litigation after periods of volatility in the market price of a company's securities. If a stockholder were to file any such class action suit against us, we would incur substantial legal fees and our management's attention and resources would be diverted from operating our business to respond to the litigation, which could harm our business.

Future sales of our common stock in the public market could cause our stock price to fall.

As of November 30, 2011, we had 56,218,431 shares of common stock issued and outstanding. In addition, as of November 30, 2011, options to purchase 15,725,121 shares of our common stock at a weighted average exercise price of $0.62 per share and warrants exercisable for up to 54,345,015 shares of our common stock at a weighted average exercise price of $0.23 per share were issued and outstanding. We also have issued and outstanding convertible notes that, together with the interest that has accrued thereon as of November 30, 2011, may be converted into 68,311,799 shares of our common stock at a conversion price of $0.10 per share. The holders of such notes have agreed to convert them in connection with the closing of a public offering, as long as the offering yields gross proceeds of at least $10 million. In addition, we have an effective registration statement (File No. 333-164613) covering the resale of 65,879,838 shares, including 18,409,015 shares issuable upon the exercise of warrants. The sale of shares of our common stock pursuant to any public offering, the resale registration statement, Rule 144 of the Securities Act of 1933, as amended, or otherwise, could depress the market price of our common stock. A reduced market price for our common stock could make it more difficult to raise funds through future offerings of common stock.

The sale of securities by us in any equity or debt financing could result in dilution to our existing stockholders and have a material adverse effect on our earnings.

Any sale of common stock by us in a future private placement or public offering could result in dilution to our existing stockholders as a direct result of our issuance of additional shares of our capital stock. In addition, our business strategy may include expansion through internal growth, by acquiring complementary businesses, by acquiring or licensing additional products and services, or by establishing strategic relationships with targeted customers and suppliers. In order to do so, or to finance the cost of our other activities, we may issue additional equity securities that could dilute our stockholders' stock ownership. We may also assume additional debt and incur impairment losses related to goodwill and other tangible assets if we acquire another company and this could negatively impact our earnings and results of operations.

U.S. broker-dealers may be discouraged from effecting transactions in shares of our common stock because they may be considered penny stocks and thus be subject to the penny stock rules.

The SEC has adopted a number of rules to regulate "penny stock" that restricts transactions involving our shares of common stock. Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities and Exchange Act of 1934, as amended. These rules may have the effect of reducing the liquidity of penny stocks. "Penny stocks" generally are equity securities with a price of less than $5.00 per share (other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market if current price and volume information with respect to transactions in such securities is provided by the exchange or system). Because our securities may constitute "penny stock" within the meaning of the rules, the rules would apply to us and to our securities. The additional sales practice and disclosure requirements imposed upon U.S. broker-dealers may discourage such broker-dealers from effecting transactions in shares or our common stock, which could severely limit the market liquidity of such shares and impede the their sale in the secondary market.

A U.S. broker-dealer selling penny stock to anyone other than an established customer or "accredited investor" (generally, an individual with net worth in excess of $1,000,000 or an annual income exceeding $200,000, or $300,000 together with his or her spouse) must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the penny stock regulations require the U.S. broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared in accordance with SEC standards relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A U.S. broker-dealer is also required to disclose commissions payable to the U.S. broker-dealer and the registered representative and current quotations for the securities. Finally, a U.S. broker-dealer is required to submit monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

Stockholders should be aware that, according to SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, resulting in investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities.

We have not paid dividends in the past and do not expect to pay dividends for the foreseeable future, and any return on investment may be limited to potential future appreciation on the value of our common stock.

We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including without limitation, our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. To the extent we do not pay dividends, our stock may be less valuable because a return on investment will only occur if and to the extent our stock price appreciates, which may never occur. In addition, investors must rely on sales of their common stock after price appreciation as the only way to realize their investment, and if the price of our stock does not appreciate, then there will be no return on investment. Investors seeking cash dividends should not purchase our common stock.

Our officers, directors and principal stockholders can exert significant influence over us and may make decisions that are not in the best interests of all stockholders.

Our officers, directors and principal stockholders (greater than 5% stockholders) collectively control approximately 46% of our issued and outstanding common stock. As a result, these stockholders are able to affect the outcome of, or exert significant influence over, all matters requiring stockholder approval, including the election and removal of directors and any change in control. In particular, this concentration of ownership of our common stock could have the effect of delaying or preventing a change of control of us or otherwise discouraging or preventing a potential acquirer from attempting to obtain control of us. This, in turn, could have a negative effect on the market price of our common stock. It could also prevent our stockholders from realizing a premium over the market prices for their shares of common stock. Moreover, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and accordingly, they could cause us to enter into transactions or agreements that we would not otherwise consider.

Transactions engaged in by our largest stockholders, our directors or executives involving our common stock may have an adverse effect on the price of our stock.

Our officers, directors and principal stockholders (greater than 5% stockholders) collectively control approximately 46% of our issued and outstanding common stock. Subsequent sales of our shares by these stockholders could have the effect of lowering our stock price. The perceived risk associated with the possible sale of a large number of shares by these stockholders, or the adoption of significant short positions by hedge funds or other significant investors, could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated sales of stock by our directors or officers could cause other institutions or individuals to engage in short sales of our common stock, which may further cause the price of our stock to decline.

From time to time our directors and executive officers may sell shares of our common stock on the open market. These sales will be publicly disclosed in filings made with the SEC. In the future, our directors and executive officers may sell a significant number of shares for a variety of reasons unrelated to the performance of our business. Our stockholders may perceive these sales as a reflection on management's view of the business and result in some stockholders selling their shares of our common stock. These sales could cause the price of our stock to drop.

Anti-takeover provisions may limit the ability of another party to acquire us, which could cause our stock price to decline.

Delaware law contains provisions that could discourage, delay or prevent a third party from acquiring us, even if doing so may be beneficial to our stockholders, which could cause our stock price to decline. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our common stock.

Non-U.S. investors may have difficulty effecting service of process against us or enforcing judgments against us in courts of non-U.S. jurisdictions.

We are a company incorporated under the laws of the State of Delaware. All of our directors and officers reside in the United States. It may not be possible for non-U.S. investors to effect service of process within their own jurisdictions upon our company and our directors and officers. In addition, it may not be possible for non-U.S. investors to collect from our company, its directors and officers, judgments obtained in courts in such non-U.S. jurisdictions predicated on non-U.S. legislation.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

The Company leases its headquarters and Neurometric Information Services space, located at 85 Enterprise, Suite 410, Aliso Viejo, CA 92656, under an operating lease which commenced on February 1, 2010 and terminates on January 31, 2013. 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, located at 7800 East Orchard Road, Suite 340, Greenwood Village, Co 80111, under an operating lease. A 37 month extension to the original 2005 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.

We believe that our current space is adequate for our needs and that suitable additional or substitute space will be available to accommodate the foreseeable expansion of our operations.

ITEM 3. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the ordinary course of business. 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.

On April 11, 2011, former CEO and Chairman of the Board of Directors Leonard J. Brandt and his family business partnership Brandt Ventures, GP, filed an action in the Superior Court for the State of California, Orange County against CNS Response, Inc., one of its stockholders and a member of the board of directors, alleging breach of a promissory note agreement entered into by Brandt Ventures, GP and the Company and alleging that Mr. Brandt was wrongfully terminated as CEO in April, 2009 for which he is seeking approximately $170,000 of severance. The plaintiffs seek rescission of a $250,000 loan made by Brandt Ventures, GP to the Company which was converted into common stock in accordance with its terms, restitution of the loan amount and compensatory and punitive damages for Mr. Brandt's termination. The Company was served with a summons and complaint in the action on July 19, 2011. On November 1, 2011, Mr. Brandt filed an amended complaint amending their claims and adding new claims against the same parties. CNS Response, Inc. believes the complaint to be devoid of any merit and will aggressively defend the action if the plaintiffs decide to proceed with it. The action is captioned *Leonard J. Brandt and Brandt Ventures, GP v. CNS Response, Inc., Sail Venture Partners and David Jones*, case no. 30-2011-00465655-CU-WT-CJC.

ITEM 4. (Removed and Reserved.)

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Common Stock

Our common stock is currently trading on the OTC Bulletin Board under the symbol CNSO.OB. There is currently no broadly followed, established trading market for our common stock. Established trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. The absence of an established trading market increases price volatility and reduces the liquidity of our common stock. As a result of this lack of trading activity, the quoted price for our common stock on the OTCBB is not necessarily a reliable indicator of its fair market value.

The following table sets forth, for the periods indicated, the high and low bid information for our common stock as determined from sporadic quotations on the OTC Bulletin Board, where our stock was quoted through February 23, 2011 and then again commencing April 1, 2011 and the OTCQB, where our stock was quoted exclusively from February 23, 2011 through March 31, 2011. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	High	Low
Year Ended September 30, 2010		
First Quarter	$ 1.20	$ 0.50
Second Quarter	$ 1.20	$ 0.52
Third Quarter	$ 1.15	$ 0.40
Fourth Quarter	$ 0.95	$ 0.05
Year Ended September 30, 2011		
First Quarter	$ 0.65	$ 0.15
Second Quarter	$ 0.48	$ 0.12
Third Quarter	$ 0.60	$ 0.25
Fourth Quarter	$ 0.27	$ 0.10

On December 16, 2011, the closing sales price of our common stock as reported on the OTC Bulletin Board was $0.10 per share. As of December 16, 2011, there were 344 record holders of our common stock. The number of holders of record is based on the actual number of holders registered on the books of our transfer agent and does not reflect holders of shares in "street name" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

Dividend Rights

We have not paid or declared cash distributions or dividends on our common stock and we do not intend to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all earnings, if and when generated, to finance our operations. The declaration of cash dividends in the future will be determined by the board of directors based upon our earnings, financial condition, capital requirements and other relevant factors.

Securities Authorized for Issuance Under Equity Compensation Plans

The required disclosure on our equity compensation plan is incorporated herein by reference to "Item 13. Certain Relationships and Related Transactions, and Director Independence - Securities Authorized for Issuance Under Equity Compensation Plans."

Recent Sales of Unregistered Securities

The information required to be disclosed pursuant to Item 701 of Regulation S-K is incorporated herein by reference to*"Item 13. Certain Relationships and Related Transactions, and Director Independence - Certain Relationships and Related Transactions - Terms of Transactions with Related Persons."*

None of the sales of securities referred to in such section was registered under the Securities Act of 1933, as amended (the "Securities Act"). Each of the purchasers represented to us that he/she/it was an "accredited investor" as that term is defined in Regulation D under the Securities Act. In addition, no general solicitation or advertising was used in connection with the sales. In making the sales without registration under the Securities Act, the Company relied upon the exemptions from registration contained in Sections 4(2) of the Securities Act, and in Regulation D promulgated under the Securities Act.

ITEM 6. Selected Financial Data.

Not applicable.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes provided under Part II, Item 8 of this annual report on Form 10-K. This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of CNS Response, Inc. for the fiscal years ended September 30, 2011 and 2010. Except for historical information, the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management as of the date hereof based on information currently available to our management. Use of words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "forecasts," "goal," "likely" or similar expressions, indicate a forward-looking statement. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions. Actual results may differ materially from the forward-looking statements we make. See "Risk Factors" elsewhere in this annual report on Form 10-K for a discussion of certain risks associated with our business. We disclaim any obligation to update forward-looking statements for any reason.

Overview

We are a cloud-based neurometric company focused on analysis, research, development and the commercialization of a patented platform which allows psychiatrists and other physicians to exchange outcome data referenced to electrophysiology. With this information, physicians can make more informed decisions when treating individual patients with behavioral (psychiatric and/or addictive) disorders. Our secondary Clinical Services business, operated by our wholly-owned subsidiary, Neuro-Therapy Clinic ("NTC"), is a full service psychiatric clinic.

Neurometric Information Services

Because of the lack of objective neurophysiology data available to physicians, the underlying pathology and physiology of behavioral disorders such as depression, bipolar disorder, eating disorder, addiction, anxiety disorders and attention deficit hyperactivity disorder (ADHD) can rarely be analyzed effectively by treating physicians. Doctors are ordinarily forced to make prescription decisions based only on symptomatic factors. As a result, treatment can often be ineffective, costly and may require multiple courses of treatment before the effective medications are identified, if at all.

We believe that our technology offers an improvement over traditional methods for evaluating pharmacotherapy options in 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 what we believe to be the largest outcomes database for mental health care pharmacotherapy, consisting of over 17,000 medication trials for patients with psychiatric or addictive problems. We refer to this database as the PEER Online database (it was formerly known as the "CNS Database"). For each patient in the PEER Online database, we have compiled neurophysiology data from electroencephalographic ("EEG") scans, symptoms and outcomes often across multiple treatments from multiple psychiatrists and other physicians. This patented technology, called PEER Online™ (based on a technology known as "Referenced-EEG®" or "rEEG®"), represents an innovative approach to describing effective medications for patients suffering from debilitating behavioral disorders.

This technology allows us to create and provide simple reports ("PEER Outcome Reports" or "PEER Reports") to medical professionals that summarize historical treatment success of specific medications for those patients with similar neurometric brain patterns. PEER Reports provide neither a diagnosis nor a specific treatment, but like all lab results, provide objective, evidenced-based information to help the prescriber in their decision-making. With PEER Reports, physicians order a digital EEG for a patient, which is then referenced to the PEER Online database. By providing this reference correlation, an attending physician can better establish a treatment strategy with the knowledge of how other patients with similar brain function have previously responded to a myriad of treatment alternatives. Analysis of this complete data set yielded a platform of neurometric variables that have shown utility in characterizing patient response to diverse medications. This platform then allows a new patient to be characterized based on these neurometric variables, and the database to be queried to understand the statistical response of patients with similar brain patterns to the medications currently in the database.

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

In addition to its utility in providing psychiatrists and other physicians/prescribers with medication sensitivity data, our PEER Online technology provides us with significant opportunities in the area of pharmaceutical development. Our PEER Online™ technology, in combination with the information contained in the PEER Online database, offers the potential to enable the identification of novel uses for neuropsychiatric medications currently on the market and in late stages of clinical development, as well as in aiding 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 pathophysiological markers 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 larger psychiatric medication management practices in the state of Colorado, with six full time and seven 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 served as our President from April 2009 to April 2011.

NTC, having performed a significant number of PEER Reports, serves as an important resource in our product development, the expansion of our PEER Online 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 Neurometric 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 Neurometric Information Services business, and we have no current plans to expand this business.

Working Capital

Since our inception, we have generated significant net losses. As of September 30, 2011, we had an accumulated deficit of approximately $42.2 million, and as of September 30, 2010, our accumulated deficit was approximately $33.4 million. We incurred operating losses of $5.8 million and $6.5 million for the fiscal years ended September 30, 2011 and 2010, respectively and incurred net losses of $10.0 million and $8.2 million for those respective periods. We expect our net losses to continue for at least the next couple of years. We anticipate that a substantial portion of our capital resources and efforts will be focused on the scale-up of our commercial organization, research and product development and other general corporate purposes, including the payment of legal fees incurred as a result of 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 PEER Online technology across different types of behavioral disorders; the enhancement of the CNS Database and PEER Online process, 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 along with funding by the Company.

As of September 30, 2011, our current liabilities of approximately $11.8 million exceeded our current assets of approximately $0.3 million by approximately $11.5 million and our net losses will continue for the foreseeable future. As part of the $11.8 million of current liabilities we have $5.5 million of secured convertible debt which is discounted to $4.3 million. Since September 30, 2011, we have raised an additional $830,000 from the issuance of subordinated secured convertible debt; however, we will need immediate additional funding to continue our operations plus substantial additional funding before we can increase the 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 the funds available for our business activities. However, effective September 30, 2011, we have, with the agreement of holders of the majority of the aggregate principal amount outstanding of the October and January Notes (both as defined below), amended such notes to extend the maturity date and to add a mandatory conversion provision, among other things. Under the mandatory conversion provision, the October and January Notes would automatically be converted upon the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million. 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.

2010-2011 Private Placement Transactions

From June 3, 2010 through to November 12, 2010, we raised $3.00 million through the sale of senior secured convertible notes ("October Notes") and warrants. Of such amount $1.75 million was purchased by members of our Board of Directors or their affiliate companies.

From January 20, 2011 through to April 25, 2011, we raised $2.50 million through the sale of subordinated convertible notes ("January Notes") and warrants. Of such amount, $1.00 million was purchased by members of our Board of Directors or their affiliate companies. These January Notes have subsequently been amended to add a second-position security interest.

From October 12, 2011 through November 17, 2011, we raised an additional $830 thousand through the sale of subordinated secured convertible notes ("Bridge Notes") and warrants. *See Notes 3 and 11 of the audited financial statements, "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Recent Sales of Unregistered Securities" and "Item 13. Certain Relationships and Related Transactions, and Director Independence."*

Financial Operations Overview

Revenues

Our Neurometric Information Services revenues are derived from the sale of rEEG Reports to physicians. Physicians are generally billed upon delivery of a PEER Report. The list price of our PEER Reports to physicians is $400. Follow-up reports and more complex workups can range from $200 to $800.

Clinical Services revenue is generated as a result of providing services to patients on an outpatient basis. Patient service revenue is recorded at our established billing rates less contractual adjustments. Generally, collection in full is not expected on our established billing rates. Contractual adjustments are recorded to state our patient service revenue at the amount we expect to collect for the services provided based on amounts due from third-party payers at contractually determined rates.

Cost of Revenues

Cost of revenues are for Neurometric Information Services and represent the cost of direct labor, the costs associated with external processing, analysis and consulting review necessary to render an individualized test result and any miscellaneous support expenses. Costs associated with performing our tests are expensed as the tests are performed. We continually evaluate the feasibility of hiring our own personnel to perform most of the processing and analysis necessary to render a rEEG Report.

Cost of revenues for Clinical Services are not broken out separately but are included in general and administrative expenses.

Research and Development

Research and development expenses are associated with our Neurometric Information Services and primarily represent costs incurred to design and conduct clinical studies, to recruit patients into the studies, to improve rEEG processing, to add data to the CNS Database, to improve analytical techniques and advance application of the methodology. We charge all research and development expenses to operations as they are incurred.

Sales and Marketing

For our Neurometric Information Services, our selling and marketing expenses consist primarily of personnel, media, support and travel costs to inform user organizations and consumers of our products and services. Additional marketing expenses are the costs of educating physicians, laboratory personnel, other healthcare professionals regarding our products and services.

For our Clinical Services, selling and marketing costs relate to advertising to attract patients to the clinic.

General and Administrative

Our general and administrative expenses consist primarily of personnel, occupancy, legal, consulting and administrative and support costs for both our Neurometric Information Services and Clinical Services businesses.

Critical Accounting Policies and Significant Judgments and Estimates

This discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these 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.

Our significant accounting policies are described in Note 2 to our consolidated financial statements included elsewhere in this report. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Revenue Recognition

We have generated limited revenues since our inception. Revenues for our Neurometric Service product are recognized when a PEER 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.

Derivative accounting for convertible debt and warrants

The Company analyzes all financial instruments with features of both liabilities and equity under ASC-480-10 and ASC 815-10 whereby the Company determines the fair market carrying value of a financial instrument using the Black-Scholes model and revalues the fair market value on a quarterly basis. Any changes in carrying value flow through as other income (expense) in the income statement.

Results of Operations for the Years Ended September 30, 2011 and 2010

As earlier described, we operate in two business segments: Neurometric Information Services and Clinical Services. Our Neurometric Information Services business focuses on the delivery of reports ("PEER Reports") that enable psychiatrists and other physician/prescribers to make more informed, patient-specific decisions when treating individual patients for behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. Our Clinical Services business operated by 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.

	Year ended September 30,	
	2011	2010
Revenues	100%	100%
Cost of revenues	20	21
Gross profit	80	79
Research	65	116
Product development	59	60
Sales and marketing	165	136
General and administrative expenses	573	785
Operating loss	(782)	(1,018)
Other income (expense), net	(407)	(262)
Net income (loss)	(1,189)%	(1,280)%

Revenues

	Year ended September 30,		
	2011	2010	Percent Change
Neurometric Service Revenues	$ 111,400	$ 136,100	(18)%
Clinical Service Revenues	634,500	502,400	26%
Total Revenues	$ 745,900	$ 638,500	17%

With respect to our Neurometric Information Services business, the number of third party paid PEER Reports delivered decreased from 358 for the year ended September 30, 2010, to 279 for the same period ended September 30, 2011. The average revenue per report increased from $380 to $399 for those same periods respectively. Additionally, our Clinical Services operation ordered a further 93 PEER Reports during the year ended September 30, 2011. The total numbers of free PEER Reports processed were 136 and 115 for the years ended September 30, 2010 and 2011 respectively. These free PEER Reports are used for training, database-enhancement and compassionate-use purposes.

Clinical Services revenues increased by $132,100 for the year ended September 30, 2011 as a result of radio advertising that was implemented starting December 2010. Additionally, as we had hired a second psychiatrist, we have the capacity to see new patients responding to the radio advertising.

Cost of Revenues

	Year ended September 30,		
	2011	2010	Percent Change
Cost of Neurometric Information Services revenues	$ 147,100	$ 135,100	9%

Cost of Neurometric Information Services revenues consists of payroll costs, consulting costs, and other miscellaneous charges. Consulting costs associated with the processing of PEER Reports are $75 per PEER Report. For the year ended September 30, 2011, cost of revenues consisted of direct labor and benefit costs (including stock-based compensation costs) of $112,700, and consulting fees of $30,100. For the comparable period ended September 30, 2010, direct labor and benefit costs of $102,100, including stock-based compensation, and consulting fees of $32,700. We expect the cost of revenues to decrease as a percentage of revenues as we improve our operating efficiency and increase the automation of certain processes.

Our Clinical Services segment did not incur any cost of revenues in either year as all Clinical Service costs are treated under General and Administrative Costs.

Research

	Year ended September 30,		
	2011	2010	Percent Change
Neurometric Information Services research	$ 482,800	$ 738,800	(35)%

Research expenses consist of clinical studies expenses, doctor training costs, consulting fees, payroll costs (including stock-based compensation costs), travel and conference costs and other miscellaneous costs. Research costs for the year ended September 30, 2011, primarily consisted of the following: payroll and benefit costs (including stock based compensation) of $427,000, consultant costs of $16,000, conference costs of $10,100 and other miscellaneous costs of $29,700. For the comparable period in 2010, research and development costs included: payroll and benefit costs (including stock based compensation) of $651,600, consultant costs of $50,200, conference and travel costs of $7,500 and other miscellaneous costs of $29,500.

Comparing the year ended September 30, 2011 with the corresponding period in 2010, payroll and benefit cost decreased by $224,600 as a result of downsizing the research department as the Company had completed its clinical trial and was more focused on drafting scientific papers for publications. Consulting costs were reduced by $34,200 in the 2011 period due to the completion of the clinical trial in 2010. Travel and conference expenses and miscellaneous expenses remained substantially equivalent for the two periods.

Our Clinical Services segment did not incur any research expenses in either year.

Product Development

	Year ended September 30, 2011	Year ended September 30, 2010	Percent Change
Neurometric Information Services Product Development	$ 442,000	$ 381,700	16%

Product Development expenses consist of payroll costs (including stock-based compensation costs), consulting fees, programming fees on the production system, database costs and miscellaneous costs. For the year ended September 30, 2011, these expenses were: payroll and benefit costs (including stock based compensation) of $261,100, consultant costs $26,400, programming fees $118,700, database costs $19,400, travel and miscellaneous costs of $16,400. For the comparable period for 2010, payroll and benefit costs (including stock based compensation) of $196,700, consultant costs $99,000, programming fees $50,300, database costs $17,000, travel and miscellaneous costs of $18,700.

Comparing the year ended September 30, 2011 with the corresponding period in 2010, the increase in payroll costs of $64,400 is due to an adjustment in salary, stock compensation and vacation pay for the 2011 year. Consulting fees decreased by $72,600 in fiscal 2011 as consultants had been engaged to assist with the preparation of the 510(k) application that was submitted to the FDA in April 2010; this effort was not repeated in 2011. Programming fees for 2011 increased by $68,400 as we enhanced the functionality, robustness and reporting capability of the PEER Online platform, which included the development of the iPad application. Database costs, travel and miscellaneous expenditures remained substantially similar for the two comparable periods.

Our Clinical Services segment did not incur any product development expenses in either year.

Sales and marketing

	Year ended September 30, 2011	Year ended September 30, 2010	Percent Change
Sales and Marketing			
Neurometric Information Services	$ 1,132,800	$ 853,100	33%
Clinical Services	98,700	17,800	454%
Total Sales and Marketing	$ 1,231,500	$ 870,900	41%

Sales and marketing expenses associated with our Neurometric 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 year ended September 30, 2011 primarily consisted of the following expenses: payroll and benefits $706,000, advertising and marketing $95,300, consulting $193,700, conferences and travel $115,700 and other miscellaneous expenses of $22,100. For the comparable period in 2010 expenses were as follows: payroll and benefits $568,100, advertising and marketing $59,100, consulting $122,700, conferences and travel $71,600, and other miscellaneous expenses of $31,700.

Comparing the year ended September 30, 2011, with the same period in 2010, payroll and benefits increased by $137,900 in the 2011 period as a result of hiring our Executive Vice President and Chief Marketing Officer in July 2010 to lead our marketing efforts in pursuing contracts with large targeted organizations. Additionally, we hired a Vice President of Customer Relations to spearhead our efforts with the military and to get the Company established as a GSA provider. Advertising and marketing expenses increased by $36,200 as the Company entered into a collaboration agreement with Medco Health Solutions to undertake a study which will support the marketing of our services; we also contributed $10,000 to the Blue Star Families Organization with has produced a PSA and other publicity focused on the mental health of military families. Consulting expenses increased by $71,000 as a result of engaging business development consultants to position the company in key marketing channels. Conference and travel expenses increased by $44,100 in the 2011 period as our targeted customers were predominately based on the East Coast necessitating multiple cross-country visits and temporarily housing our VP of Customer Relations near a targeted customer site. Other miscellaneous expenses were reduced by $9,600 in the 2011 period.

The Clinical Services sales and marketing expenses consists of advertising to attract patients to the Clinic. During the year ended September 30, 2011, Clinical Services marketing expenditures increased by $80,900 as the Clinic started, with the assistance of consultants, using radio advertising which was determined to be effective in attracting new patients. We anticipate a moderate increase in marketing expenditure as the Clinic has the capacity, with its newly recruited psychiatrist, to handle an increased patient load.

General and administrative

	Year ended September 30, 2011	Year ended September 30, 2010	Percent Change
General and administrative			
Neurometric Information Services	$ 3,197,900	$ 4,262,900	(25)%
Clinical Services	1,074,000	754,100	42%
Total General and administrative	$ 4,271,900	$ 5,017,000	(15)%

General and administrative expenses for our Neurometric Information Services business are largely comprised of payroll and benefit costs, including stock based compensation, legal fees, patent costs, other professional and consulting fees, general administrative and occupancy costs, dues and subscriptions, conference and travel costs and miscellaneous costs.

For the year ended September 30, 2011, General and Administrative expenses were as follows: salaries and benefit costs of $1,736,400, legal fees of $487,500 and other professional and consulting fees of $394,400, general administrative and occupancy costs of $226,200, patent costs of $157,300, marketing and investor relations expenses of 23,300, dues and subscriptions $63,000 and conference and travel costs of $109,600. For the similar period in 2010, General and Administrative costs were as follows: salaries and benefit costs of $1,203,200, legal fees of $1,738,400; other professional and consulting fees of $727,700, general administrative and occupancy costs of $234,600, patent costs of $77,300; marketing and investor relations expenses of 96,400, dues and subscriptions $78,200 and conference and travel expenses of $103,300.

With respect to our Neurometric Information Services business, in the year ended September 30, 2011, compared to the same period in 2010, payroll and benefit expenses increased by a net $533,200 of which $373,900 was due to an increase in stock-based compensation due to accounting for vested option grants given to employees, directors, advisors and consultants in March and July of 2010. The balance of the increase of $159,300, was due to (i) the addition of the Chief Financial Officer (CFO), who was previously engaged as a consultant, and joined the staff in mid-February 2010, (ii) the Board-approved increase in the salary of our Chief Executive Officer (CEO) and (iii) the addition of an accountant who joined the staff in March 2011. Professional and consulting fees decreased by a net $333,300 which was partly due to the mix of consulting services used in fiscal 2010 and the transition of the CFO from consulting to permanent staff. Additionally, warrants which were issued in 2010 for financial consulting services valued at $199,000 did not reoccur in 2011. Legal fees decreased by a net $1,250,900 which was made up of a $1,094,900 reduction in litigation fees in defending against actions brought by Mr. Brandt. All matters adjudicated between Mr. Brandt and us have been ruled in our favor. Patent costs increased by $80,000 in the 2011 period, of which $52,200 was for the filing of European and Japanese patent applications. During 2011 the Company was awarded its fifth patent in the United States and its first patent in Canada. Marketing and investor relations expenses declined by $73,100 by negotiating better terms and ceasing a relationship with a publicity firm that was yielding only limited benefits. General administrative and occupancy costs and Conference and Travel costs and dues and subscriptions remained substantially unchanged for both 2011 and 2010 periods.

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 support costs. These costs increased by $319,900 in the year September 30, 2011, from the comparable 2010 period. This increase is partly due to the hiring of an additional psychiatrist, a pay increase given to the Clinic's Medical Director and partly due to the reduced reimbursement by Neurometric Information Services of Clinic staff who had worked on the Company's clinical trial.

Other income (expense)

	Year ended September 30, 2011	Year ended September 30, 2010	Percent Change
Neurometric Information Services (Expense), net	$ (3,035,900)	$ (1,668,100)	82%
Clinical Services (Expense)	-	(100)	(100)%
Total interest income (expense)	$ (3,035,900)	$ (1,668,200)	82%

For the years ended September 30, 2011 and 2010 net other non-operating expenses for Neurometric Information Services were $3,035,900 and $1,668,200, respectively, as follows:

1) For fiscal 2011, we incurred non-cash interest charges totaling $7,567,000, of which $383,800 was accrued interest on our promissory notes at 9% per annum; the remaining balance of $7,180,000 was comprised of warrant discount amortization and warrant and note conversion derivative liability charges. The actual net interest paid in cash for the 2011 period was approximately $3,200. For the comparable period in 2010 we incurred interest expenses totaling $360,500, which was comprised of a non-cash charge of $258,900 associated with the value of the beneficial conversion feature of the 2010 Bridge Notes and Deerwood Notes. Additionally, we incurred a non-cash charge of $77,000 related to the amortization of warrant discount associated with the warrants issued in conjunction with the Bridge Notes and Deerwood Notes and a further interest charge of $19,700, which had accrued on the notes themselves. Actual interest paid net of interest earned was only $4,900.

2) We incurred finance fees totaling $348,500 in association with our private placement of convertible notes. Of these finance fees $165,000 was paid in cash and $183,500 was the fair value of warrants that were issued to the placement agents per their agreements and to SAIL Venture Partners, LP for guarantying the Deerwood notes. *(See Note 3 to the financial statements).* Additionally we incurred offering costs of $437,800 in our attempt to undertake an initial public offering in Canada and obtain a listing on the Toronto Venture Exchange. This effort was aborted as market conditions soured during the latter half of 2011 and were not conducive to raising adequate funding. For the comparable period in 2010 we incurred financing fees of $213,400. This comprised a non-cash charge of $193,400 associated with the warrants issued to SAIL in connection with the guaranties provided by SAIL in connection with the Deerwood Notes. An additional $20,000 was paid for due diligence work to an entity in anticipation of obtaining financing; no financing ensued as the terms were ultimately considered to be potentially too dilutive to our shareholders.

3) Under ASC 815, all derivative instruments are required to be measured subsequently at fair value and the change in fair value of non-hedging derivative instrument shall be recognized currently in earnings Revaluation of our derivative liabilities for the promissory note conversion feature and associated warrants for the year ended September 30, 2011, resulted in a non-cash gain of $6,826,700. This non-cash charge represents the net result of a gain of $4,217,500 booked at December 31, 2010 which was subsequently offset by a charge of $3,963,400 at March 31, 2011. For the quarter ended June 30, 2011 the Company has recorded another gain of $4,498,900 followed by a further gain of $2,073,700 in the fourth quarter ending September 30, 2011. These large changes in the valuation of derivative liabilities are the result of volatility in our stock price which ranged from $0.50 at October 1, 2010 to $0.20 at December 31, 2010 to $0.45 at March 31, 2011, to $0.26 at June 30, 2011 and $0.25 at the September 30, 2011 year end. As a result of the periodic volatility in our stock price we can anticipate material swings in non-cash losses and income as a result of the quarterly revaluation of our derivative liabilities. For the comparable period in 2010 we had not reached the point where we needed to revalue derivative liabilities.

4) As a result of the amendment of our October and January series of promissory notes extending their maturity date to October 1, 2012, this modification was accounted for as a debt extinguishment whereby the difference in the carrying value of the original notes and the carrying value of the amended notes is treated as a period cost and booked to the income statement as loss on extinguishment of debt. For the year ended 2011, the loss on extinguishment is $1,968,000 which is a non-cash charge. In 2010 we incurred a non-cash loss on extinguishment of debt of $1,094,300 when bridge notes issued to John Pappajohn on June 3 and July 25, 2010 and the Deerwood Notes issued to the Deerwood investors on July 5 and August 20, 2010 were subsequently replaced by October Notes.

5) For the year ended September 2011 we recorded other non-operating income of $458,800. Of this balance $135,000 pertained to an over accrual of our anticipated clinical study site costs. The study concluded in September 2009 and all study sites have closed out their billings, which has allowed us to reverse these excess accruals. An additional $53,900 was the reversal of tax related accruals, some of which pertained to calendar year 2006. These tax issues were resolved in favor of the Company and an additional small refund is anticipated. A further $203,200 accrual for a potential claim dating back to 2006 and prior was reversed as the claim never materialized and had surpassed the statute of limitations for that claim. Lastly, a balance of $66,700 pertaining to accruals, which were established in fiscal 2006 or earlier, with no claims for payment were reversed.

Net Loss

	Year ended September 30, 2011	Year ended September 30, 2010	Percent Change
Neurometric Information Services net loss	$ (8,293,600)	$ (7,904,400)	5%
Clinical Services net loss	(573,000)	(269,600)	113%
Total Net Loss	$ (8,866,600)	$ (8,174,000)	8%

The increase in net loss of $692,600 for the year ended September 30, 2011 compared to the 2010 period was largely due to the other non-operating expenses of $3,035,900 as described above. For the year ended September 30, 2011 the loss from operations for Neurometric Information Services of $5,256,400 declined by $992,500 from the $6,248,900 loss from operations incurred during the 2010 period. This reduced operating loss was due to reductions in both Research, due to the conclusion of the clinical trial, and in General and Administrative expenditures largely due to reduced litigation costs. These cost reductions were partly offset by increases in Product Development costs to enhance the PEER Online system and in increased costs related to our Sales and Marketing efforts.

For the year ended September 30, 2011, Clinical Services had an operating loss of $573,000, compared to a loss of $269,600 for the prior year. The increased loss of $303,400 is due to multiple factors including an increase in personnel and in personnel costs, which are partly due to decreased reimbursement by Neurometric Information Services for NTC staff who had previously worked on the Company's clinical trial.

Liquidity and Capital Resources

Since our inception, we have incurred significant losses. As of September 30, 2011, we had an accumulated deficit of approximately $42.2 million, and for the prior year our accumulated deficit was approximately $33.4 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, sales 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 September 30, 2011, we had approximately $93,400 in cash and cash equivalents and a working capital deficit of approximately $11.4 million compared to approximately $62,000 in cash and cash equivalents and a working capital deficit of approximately $4.2 million at September 30, 2010. The working capital deficit as of September 30, 2011 includes the $5.5 million of convertible promissory notes outstanding of which $3.0 million are senior and secured and $2.5 are subordinated and secured.

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 PEER Online 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. However, effective September 30, 2011, we have, with the agreement of holders of the majority of the aggregate principal amount outstanding of the October and January Notes, amended such notes to extend the maturity date and to add a mandatory conversion provision, among other things. Under the mandatory conversion provision, the October and January Notes would automatically be converted upon the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million.

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 PEER Online Database) and to scale up our commercial operations and marketing efforts. We expect that our existing cash will be used to fund working capital and for capital expenditures and other general corporate purposes, including the repayment of debt incurred as a result of our litigation with Brandt. Although since September 30, 2011 we have raised gross proceeds of $0.83 million through the sale of subordinated secured convertible promissory notes, we anticipate that our cash on hand (including the proceeds from these promissory notes) and cash generated through our operations will not be sufficient to fund our operations the next 12 months. In addition we will have to repay the outstanding notes plus interest starting October 1, 2012, unless we can raise at least $10 million through a public offering. 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.

The amount of capital we will need to conduct our operations and the time at which we will require such capital may vary significantly depending upon a number of factors, such as:

- the amount and timing of costs we incur in connection with our research and product development activities, including enhancements to our PEER Online Database and costs we incur to further validate the efficacy of our referenced EEG technology;
- the amount and timing of costs we incur in connection with the expansion of our commercial operations, including our selling and marketing efforts;
- whether we incur additional consulting and legal fees in our efforts to conducting a study under an FDA Investigational Device Exemption (IDE) and in obtaining an 510(k) clearance from the FDA.
- if we expand our business by acquiring or investing in complimentary businesses.

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. The issuance of equity securities may result in dilution to stockholders. We do not know whether additional funding will be available on acceptable terms, or at all, especially given the economic conditions that currently prevail. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives, and implement other cost saving measures.

Sources of Liquidity

Since our inception substantially all of our operations have been financed primarily from equity and debt financings. Through September 30, 2011, we had received proceeds of approximately $13.7 million from the sale of stock, $13.2 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.

From June 3, 2010 through to November 12, 2010, we raised $3.0 million through the sale of secured convertible notes (October Notes) and warrants. From January 20, 2011 through to April 25, 2011, we raised $2.5 million through the sale of subordinated secured convertible notes (January Notes) and warrants. Of such amounts, $2.75 million was purchased by members of our Board of Directors or their affiliate companies.

Additionally from October 18, 2011 through to November 18, 2011, we raised $0.83 million through the sale of subordinated secured convertible notes (Bridge Notes) and warrants. Of such amounts, $0.5 million was purchased by members of our Board of Directors or their affiliate companies. *See Note 3 of the financial statements, "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" and "Item 13. Certain Relationships and Related Transactions, and Director Independence."*

Cash Flows

Net cash used in operating activities was $4.2 million for the fiscal year ended September 30, 2011 compared to $4.9 million for the fiscal year ended September 30, 2010. The decrease in cash used of $0.7 million was primarily attributable to a decrease in legal fees associated with the Brandt litigation.

Net cash used in investing activities increased to $21,600 for the fiscal year ended September 30, 2011 as compared to $14,900 for the year ended September 30, 2010. Our investing activities related to the purchase of office equipment and EEG equipment to be used by a customer.

Net cash proceeds from financing activities for the year ended September 30, 2011 were approximately $1.84 million, net of offering costs, raised through our sale of secured convertible notes and warrants (the October Notes) and $2.40 million of unsecured convertible notes and warrants (the January Notes). Additionally, we also entered into a capital lease of $15,900 to finance the purchase of the above mentioned EEG equipment. These proceeds were partly offset by the repayment of $26,200 on a promissory note issued to Daniel Hoffman in connection with our acquisition of NTC and $6,100 associated with the repayment of capitalized leases.

Net cash proceeds from financing activities for the fiscal year ended September 30, 2010 were approximately $3.0 million, net of offering costs, raised on December 24 and 31, 2009 and January 4, 2009 in connection with the second, third and fourth closings respectively of our private placement transaction; $1.0 million raised in bridge financing transactions, and $100,000 as an advance from Mr. Pappajohn prior to these funds becoming part of a secured promissory note on October 1, 2010. These proceeds were partly offset by the repayment of $94,100 on a promissory note issued to Daniel Hoffman in connection with our acquisition of NTC.

Contractual Obligations and Commercial Commitments

As of September 30, 2011, our combined lease obligations are $ 169,700; our remaining lease obligation on our Aliso Viejo office, which expires on January 30, 2013, is $65,600 in total: being $49,000 and $16,600 for fiscal years 2012 and 2013 respectively, with an average monthly rental of $3,600 over the entire lease period. Our remaining lease obligation on our Greenwood Village, CO, clinic office, which expires on April 30, 2013, is $104,100 in total: $65,400 and $38,700 for fiscal years 2012 and 2013 respectively, with an average monthly rental of $5,100 over the entire lease period.

Contractual Obligations	Payments due by period Total		Less than 1 year		1 to 3 years	3-5 years	More than 5 years
Capital Lease Obligations	$	18,400	$ 7,500	$	10,900	-	-
Operating Lease Obligations		169,700	114,400		55,300	-	-
Total	$	188,100	$ 121,900	$	66,200	-	-

Derivative Liability

Current liabilities for the periods ending September 30, 2011 and 2010 include $4.8 million and $2.1 million of derivative liabilities respectively. These amounts include:

1. $2.2 million and $0.9 million for the respective 2011 and 2010 periods, which represent the fair value liability associated with the warrants issued in conjunction with the January and October Notes.

2. $2.6 million and $1.2 million for the respective 2011 and 2010 periods, which represent the fair value liability associated with the conversion option of the January and October Notes.

(Please see "Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities".)

The carrying value of these derivative liabilities are reassessed each quarter and any change in the carrying value is booked to other income (expense) in the income statement. Upon the Company raising a gross amount in excess of $10 million in a public offering, the notes associated with the conversion option will convert and the liability attributable to the conversion option will be eliminated. Furthermore, at that time, the liability associated with the warrants will also be eliminated as the warrant exercise price will be set at the lower of the offering price or the established exercise price with no further dilution adjustments. The elimination of these derivative liabilities will result in their balances at that time being booked to other income.

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, 2011, we had net operating loss carryforwards for federal income tax purposes of $25.6 million. If not utilized, the federal net operating loss carryforwards will begin expiring in 2030. 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 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

ITEM 8. Financial Statements and Supplementary Data

Index to financial statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
CNS Response, Inc.
85 Enterprise, Suite 410
Aliso Viejo, CA 92656

We have audited the accompanying consolidated balance sheets of CNS Response, Inc. (the "Company") and its subsidiaries as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended September 30, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company's recurring losses from operations and net capital deficit, raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Cacciamatta Accountancy Corporation

Irvine, California
December 21, 2011

CNS RESPONSE, INC.

CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30, 2011 and 2010

	As at September 30, 2011		As at September 30, 2010	
ASSETS				
CURRENT ASSETS:				
Cash	$	93,400	$	62,000
Accounts receivable (net of allowance for doubtful accounts of $20,300 and $10,400 in 2011 and 2010 respectively)		54,400		48,900
Prepaids and other		72,100		84,900
Other offering costs		103,000		-
Total current assets		322,900		195,800
Furniture & equipment		32,700		23,000
Other assets		14,400		18,700
TOTAL ASSETS	$	370,000	$	237,500
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable (including $156,000 and $60,800 to related parties in 2011 and 2010 respectively)	$	1,778,900	$	1,383,700
Accrued liabilities		196,700		380,700
Other payable – related party		-		100,000
Accrued compensation (including $189,200 and $81,200 to related parties in 2011 and 2010 respectively)		285,900		263,600
Accrued patient costs		-		135,000
Accrued consulting fees (including $45,000 and $27,000 to related parties in 2011 and 2010, respectively)		65,000		86,600
Accrued interest		384,500		-
Derivative liability		4,801,200		2,061,900
Secured convertible promissory notes-related party (net of discounts $155,700 in 2011 and $1,023,900 in 2010)		2,868,200		-
Subordinated convertible promissory notes-related party (net of discounts $1,105,200 in 2011 and $0 in 2010)		1,394,800		-
Current portion of long-term debt		6,100		26,900
Total current liabilities		11,781,300		4,438,400
LONG-TERM LIABILITIES				
Capital lease		10,200		3,400
Total long-term liabilities		10,200		3,400
TOTAL LIABILITIES		11,791,500		4,441,800
COMMITMENTS AND CONTINGENCIES		-		-
STOCKHOLDERS' EQUITY:				
Common stock, $0.001 par value; authorized 750,000,000 shares; 56,133,770 and 56,023,921 shares issued and outstanding as of September 30, 2011 and 2010		56,100		56,000
Additional paid-in capital		30,758,900		29,109,600
Accumulated deficit		(42,236,500)		(33,369,900)
Total stockholders' equity		(11,421,500)		(4,204,300)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	370,000	$	237,500

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
REVENUES		
Neurometric Information Services	$ 111,400	$ 136,100
Clinical Services	634,500	502,400
	745,900	638,500
OPERATING EXPENSES:		
Cost of Neurometric Service revenues	147,100	135,100
Research	482,800	738,800
Product development	442,000	381,700
Sales and marketing	1,231,500	870,900
General and administrative	4,271,900	5,017,000
Total operating expenses	6,575,300	7,143,500
OPERATING LOSS	(5,829,400)	(6,505,000)
OTHER INCOME (EXPENSE):		
Interest income (expense), net	(7,567,000)	(360,500)
Loss on extinguishment of debt	(1,968,000)	(1,094,300)
Financing fees	(348,600)	(213,400)
Offering costs	(437,800)	-
Other non-operating income	458,800	-
Gain on derivative liabilities	6,826,700	-
Total other income (expense)	(3,035,900)	(1,668,200)
LOSS BEFORE PROVISION FOR INCOME TAXES	(8,865,300)	(8,173,200)
PROVISION FOR INCOME TAXES	1,300	800
NET LOSS	$ (8,866,600)	$ (8,174,000)
BASIC NET LOSS PER SHARE	$ (0.16)	$ (0.16)
DILUTED NET LOSS PER SHARE	$ (0.16)	$ (0.16)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	56,071,120	52,277,119
Diluted	56,071,120	52,277,119

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) FOR THE YEARS ENDEDSEPTEMBER 30, 2011 AND 2010

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance at September 30, 2009	41,781,129	$ 41,800	$ 24,044,000	$ (25,195,900)	$ (1,110,100)
Stock- based compensation	-	-	1,302,100	-	1,302,100
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
Warrants issued for consulting services	-	-	199,000	-	199,000
Value of beneficial conversion feature of bridge notes	-	-	430,700	-	430,700
Issuance of bridge warrants	-	-	152,600	-	152,600
Net loss for the year ended September 30, 2010	-	-	-	(8,174,000)	(8,174,000)
Balance at September 30, 2010	56,023,921	$ 56,000	$ 29,109,600	$ (33,369,900)	$ (4,204,300)
Stock- based compensation	-	-	1,605,400	-	1,605,400
Stock issued for consulting services paid in-lieu of cash	93,679	100	43,900	-	44,000
Value of warrants surrendered for cashless exercise	-	-	(200)	-	(200)
Stock issued for cashless exercise	16,170	-	200	-	200
Net loss for the year ended September 30, 2011	-	-	-	(8,866,600)	(8,866,600)
Balance at September 30, 2011	56,133,770	56,100	30,758,900	(42,236,500)	(11,421,500)

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,866,600)	$ (8,174,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation & amortization	11,900	9,400
Amortization of discount on bridge notes issued	4,197,800	335,900
Gain on derivative liability valuation	(6,826,700)	-
Stock based compensation	1,605,400	1,302,100
Extinguishment of debt	1,968,000	1,094,300
Issuance of warrants for consulting services	-	199,000
Issuance of warrants for financing services	183,500	193,400
Reversal of prior period accruals	(458,800)	-
Non-cash interest expense	3,366,800	21,600
Write-off of doubtful accounts	-	12,950
Changes in operating assets and liabilities:		
Accounts receivable	(5,500)	(150)
Prepaids and other	12,800	4,600
Accounts payable and accrued liabilities	615,300	231,900
Deferred compensation and others	27,300	43,500
Accrued patient costs	-	(170,500)
Security deposit on new lease	3,200	(14,600)
Net cash used in operating activities	(4,165,600)	(4,910,600)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Furniture & Equipment	(21,600)	(14,900)
Net cash used in investing activities	(21,600)	(14,900)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of convertible debt with accrued interest	15,900	-
Repayment of debt	(26,200)	(94,100)
Repayment of lease payable	(6,100)	(1,900)
Proceeds from the sale of common stock, net of offering costs	-	2,995,400
Net proceeds from secured convertible notes	1,840,000	1,000,000
Net proceeds from subordinated convertible notes	2,395,000	-
Proceeds from related party loan	-	100,000
Net cash provided by financing activities	4,218,600	3,999,400
NET INCREASE (DECREASE) IN CASH	31,400	(926,100)
CASH- BEGINNING OF YEAR	62,000	988,100
CASH- END OF YEAR	$ 93,400	$ 62,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 3,200	$ 7,900
Income taxes	$ 1,300	$ 800
Fair value of note payable to officer issued for acquisition	$ -	$ 24,700
Fair value of equipment acquired through lease	$ 16,300	$ 6,600
Non-cash financing activities:		
Shares issued for accounts payable	$ 44,000	$ -
Offering costs	$ 103,000	$ -

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

1. NATURE OF OPERATIONS

Organization and Nature of Operations

CNS Response, Inc. (the "Company") was incorporated in Delaware on March 20, 1987, under the name Age Research, Inc. Prior to January 16, 2007, CNS Response, Inc. (then called Strativation, Inc.) existed as a "shell company" with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merge. On January 16, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with CNS Response, Inc., a California corporation formed on January 11, 2000 ("CNS California"), and CNS Merger Corporation, a California corporation and the Company's wholly-owned subsidiary ("MergerCo") pursuant to which the Company agreed to acquire CNS California in a merger transaction wherein MergerCo would merge with and into CNS California, with CNS California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed, CNS California became a wholly-owned subsidiary of the Company, and on the same date the corporate name was changed from Strativation, Inc. to CNS Response, Inc.

The Company is a web-based neuroinformatic company that utilizes a patented system that provides data to psychiatrists and other physicians/prescribers to enable them to make a more informed decision when treating a specific patient 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 15, 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 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 Annual 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 terms acceptable to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of CNS Response, Inc., an inactive parent company, and its wholly owned subsidiaries CNS California and NTC. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, doubtful accounts, intangible assets, income taxes, valuation of equity instruments, accrued liabilities, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

Cash

The Company deposits its cash with major financial institutions and may at times exceed federally insured limit of $250,000. At September 30, 2011 cash did not exceed the federally insured limit. The Company believes that the risk of loss is minimal. To date, the Company has not experienced any losses related to cash deposits with financial institutions.

Derivative Liabilities

The Company applies ASC Topic 815-40, “Derivatives and Hedging,” which provides a two-step model to determine whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the scope exception in ASC 815-10-15-74. This standard triggers liability accounting on all instruments and embedded features exercisable at strike prices based on future equity-linked instruments issued at a lower rate. Using the criteria in ASC 815, the Company determines which instruments or embedded features that require liability accounting and records the fair values as a derivative liability. The changes in the values of the derivative liabilities are shown in the accompanying consolidated statements of operations as “gain (loss) on change in fair value of derivative liabilities.”

On September 26, 2010, the Company approved a term sheet to modify the terms of six convertible notes outstanding at that date in order to induce additional investment in the form of convertible debt. The original convertible notes were due in December 2010 with accrued interest at 9%, convertible into common shares at $0.50 per share and had warrants exercisable at strike price between $0.50 and $0.56. The Company modified the terms of these notes to be due 12 months from the modification date with accrued interest at 9%, convertible into common shares at $0.30 per share, 50% warrant coverage exercisable at $0.30 per share and increased the principal for accrued interest through the modification date. Both the convertible note and warrants contained ratchet provisions, which under ASC 815 required bifurcation of the conversion feature and warrants for derivative liability treatment. As of September 30, 2010 the derivative liability was $2,061,900, which was comprised of the warrant liability of $889,100 and the debt conversion option liability of $1,172,800.

Effective September 30, 2011 the Company, together with the majority of the note holders of each of the October and January notes (see Note 3) agreed to extend the maturity date of all the notes to October 1, 2012. The October notes originally had maturity dates ranging from October 1, 2011 through November 11, 2011 and the January notes originally had maturity dates starting from January 20, 2012 to April 25, 2012. The notes were also amended to include a mandatory conversion provision under which all these notes would automatically be converted upon the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million. Furthermore, the January notes were amended to being secured by all the assets of the Company, however subordinated to the October notes. The interest rate on all these notes remained unchanged at 9% per annum. Using the Black Scholes model, we valued the January and October notes with their extended maturity dates as of September 30, 2011 and compared that value with the value of these notes on the prior day with their original maturity dates. The difference of the two valuation calculations of $1,968,000 was booked to Other Expenses as a loss on extinguishment of debt charge. As of September 30, 2011 the derivative liability was $4,801,200, which was comprised of the warrant liability of $2,193,900 and the debt conversion option liability of $2,607,300.

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.

The Company's warrant liability is carried at fair value totaling $2,193,900 and $889,100, as of September 30, 2011 and 2010, respectively. The Company's conversion option liability is carried at fair value totaling $2,607,300 and $1,172,800 as of September 30, 2011 and 2010, respectively. The Company used Level 2 inputs for its valuation methodology for the warrant liability and conversion option liability as their fair values were determined by using the Black-Scholes option pricing model using the following assumptions:

	September 30, 2011
Annual dividend yield	-
Expected life (years)	1.0-3.5
Risk-free interest rate	0.13%-0.42%
Expected volatility	169%-187%

	Carrying Value As of September 30, 2011	Fair Value Measurements at September 30, 2011 Using Fair Value Hierarchy Level 1	Level 2	Level 3
Liabilities				
Warrant liability	$ 2,193,900	$ -	$ 2,193,900	$ -
Secured convertible promissory note	2,868,200		3,023,900	
Subordinated convertible promissory note	1,394,800		2,500,000	
Conversion option liability	2,607,300	-	2,607,300	-
Total	$ 9,064,200	$ -	$ 10,325,100	$ -

For the year ending September 30, 2011 the Company recognized a gain of $6,826,700 on the change in fair value of derivative liabilities. For the year ending September 30, 2010 the Company recognized no gain or loss on change in fair value of derivative liabilities. As at September 30, 2011 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 825-10.

Accounts Receivable

The Company estimates the collectability of customer receivables on an ongoing basis by reviewing past-due invoices and assessing the current creditworthiness of each customer. Allowances are provided for specific receivables deemed to be at risk for collection.

Fixed Assets

Fixed assets, which are recorded at cost, consist of office furniture and equipment and are depreciated over their estimated useful life on a straight-line basis. The useful life of these assets is estimated to be from 3 to 5 years. Depreciation for the years ended September 30, 2011 and 2010 were $11,900 and $9,400 respectively. Accumulated depreciation at September 30, 2011 and 2010 were $33,700 and $21,800 respectively.

Long-Lived Assets

As required by ASC 350-30 (formerly SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) ("ASC 350-30"), the Company reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. No impairment loss was recorded for the years ended September 30, 2011 and 2010.

Revenues

The Company recognizes revenue as the related services are delivered.

Research and Development Expenses

The Company charges all research and development expenses to operations as incurred.

Advertising Expenses

The Company charges all advertising expenses to operations as incurred.

Stock-Based Compensation

The Company has adopted ASC 718-20 (formerly SFAS No. 123R, *Share-Based Payment* -revised 2004) ("ASC718-20") and related interpretations which establish the accounting for equity instruments exchanged for employee services. Under ASC 718-20, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employees' requisite service period, generally the vesting period of the award.

Income Taxes

The Company accounts for income taxes to conform to the requirements of ASC 740-20 (formerly SFAS No. 109, *Accounting for Income Taxes*) ("ASC 740-20"). Under the provisions of ASC 740-20, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have already been recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Comprehensive Income (Loss)

ASC 220-10 (formerly, SFAS No. 130, *Reporting Comprehensive Income*) ("ASC 220-10"), requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive income (loss) is the same as its reported net income (loss) for the years ended September 30, 2011 and 2010.

Earnings (Loss) per Share

The Company has adopted the accounting principles generally accepted in the United States regarding earnings (loss) per, which requires presentation of basic and diluted earnings (loss) per share in conjunction with the disclosure of the methodology used in computing such earnings (loss) per share.

Basic earnings (loss) per share are computed by dividing income (loss) available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings (loss) per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

Segment Information

The Company uses the management approach for determining which, if any, of its products and services, locations, customers or management structures constitute a reportable business segment. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of any reportable segments. Management uses two measurements of profitability and does disaggregate its business for internal reporting and therefore operates two business segments which are comprised of a reference laboratory and a clinic. The Neurometric Information Service (formerly called Laboratory Information Services) provides reports ("PEER Reports") which enable psychiatrist or other physicians/prescribers to make more informed decisions with a treatment strategy for a specific patient with behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. The Clinic operates NTC, a full service psychiatric practice.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income (loss) as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income (loss) in either a single continuous statement of comprehensive income (loss) which contains two sections, net income (loss) and other comprehensive income (loss), or in two separate but consecutive statements. This guidance will be effective for the Company beginning in fiscal 2013. The Company does not expect the adoption of the standard update to impact its financial position or results of operations, as it only requires a change in the format of presentation.

In May 2011, the FASB issued Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards. While many of the amendments to U.S. GAAP are not expected to have a significant effect on practice, the new guidance changes some fair value measurement principles and disclosure requirements. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect the adoption of the standard update to have a significant impact on its financial position or results of operations.

In July 2011, the FASB issued ASU 2011-07: Health Care Entities (Topic 954) — Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. This update was issued to provide greater transparency relating to accounting practices used for net patient service revenue and related bad debt allowances by health care entities. Some health care entities recognize patient service revenue at the time the services are rendered regardless of whether the entity expects to collect that amount or has assessed the patient's ability to pay. These prior accounting practices used by some health care entities resulted in a gross-up of patient service revenue and the provision for bad debts, causing difficulty for outside users of financial statements to make accurate comparisons and analyses of financial statements among entities. ASU 2011-07 requires certain healthcare entities to change the presentation of the statement of operations, reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue and also requires enhanced quantitative and qualitative disclosures relevant to the entity's policies for recognizing revenue and assessing bad debts. This update is not designed and will not change the net income reported by healthcare entities. This update is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect that this update will have any material impact on its consolidated financial statements. The Company is currently evaluating if the update will have any impact on the presentation of its statement of operations.

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS

2009 Private Placement Transactions ("Maxim PIPE")

On August 26, 2009, we received gross proceeds of approximately $2,043,000 in the first closing of our private placement transaction (also referred to as the Maxim PIPE), with six accredited 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 accredited 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 accredited investors. At the third closing, we sold eight 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 accredited investors. At this fourth closing, we sold two 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

2010 & 2011 Private Placement Transactions

During 2010 and 2011 we entered into a series of Bridge Note and Warrant Purchase Agreements as described in detail below. On September 26, 2010, the Company's Board approved an approximate aggregate offering amount of $3 million in secured convertible promissory notes (the "October Notes") by January 31, 2011, including for the exchange of Bridge Notes and Deerwood Notes (as defined below) and interest on those notes. The fund raising efforts were successful and new notes in the aggregate principal amount of $3,023,938 and warrants to purchase 5,039,889 shares of common stock were issued by November 12, 2010.

On November 23, 2010 the Company's Board approved an approximate aggregate offering amount of $5 million in subordinated convertible promissory notes (the "January Notes") by July 31, 2011. From January 20, 2011 through to April 25, 2011, the Company issued January Notes in an aggregate principal amount of $2,500,000 and warrants to purchase 4,166,660 shares of common stock to twelve accredited investors.

The securities issued under the 2010 and 2011 Bridge Note and Warrant Purchase Agreements are summarized in the following table and notes:

Note Type and Investor		Amended Due Date	Balance($) (As of September 30, 2011)	Discount ($) (As of September 30, 2011)	Carrying Value ($) (As of September 30, 2011)	Warrants Issued	Warrant Expiration Date
Secured 9% Notes Convertible at $0.30 (the "October Notes") (12)							
John Pappajohn	(1)	10/1/2012	$ 761,700	$ -	$ 761,700	1,269,478	9/30/2017
Deerwood Partners, LLC	(2)	10/1/2012	256,100	(32,000)	224,100	256,125	11/2/2017
Deerwood Holdings, LLC	(2)	10/1/2012	256,100	(32,000)	224,100	256,125	11/2/2017
SAIL Venture Partners, LP	(2)		-	-	-	341,498	11/2/2017
SAIL Venture Partners, LP	(3)	10/1/2012	250,000	-	250,000	416,666	9/30/2017
Fatos Mucha	(10)	10/1/2012	100,000	-	100,000	166,666	10/11/2017
Andy Sassine	(4)	10/1/2012	500,000	-	500,000	833,333	10/10/2017
JD Advisors	(10)	10/1/2012	150,000	(6,300)	143,700	250,000	10/20/2017
Queen Street Partners	(10)	10/1/2012	100,000	(4,200)	95,800	166,666	10/27/2017
BGN Acquisitions	(2)	10/1/2012	250,000	(31,200)	218,800	416,666	11/2/2017
Highland Long/Short Fund Healthcare Fund	(5)	10/1/2012	400,000	(50,000)	350,000	666,666	11/9/2017
Monarch Capital: Placement Agent Warrants	(6)		-	-	-	33,333	10/11/2015
Monarch Capital: Placement Agent Warrants	(6)		-	-	-	133,333	11/11/2015
Total Secured Convertible Promissory notes		10/1/12	$ 3,023,900	$ (155,700)	$ 2,868,200	5,206,555	2015 - 2017

Subordinated 9% Notes Convertible at $0.30 (the "January Notes") (13)

Note Type and Investor		Amended Due Date	Balance($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
Meyer Proler MD	(7)	10/1/2012	$ 50,000.00	$ (12,500)	$ 37,500	83,333	1/19/2018
William F. Grieco	(10)	10/1/2012	100,000.00	(33,300)	66,700	166,666	2/2/2018
Edward L. Scanlon	(10)	10/1/2012	200,000.00	(66,700)	133,300	333,333	2/6/2018
Robert Frommer Family Trust	(8)	10/1/2012	50,000.00	(4,700)	45,300	83,333	2/14/2018
Paul Buck	(9)	10/1/2012	50,000.00	(4,700)	45,300	83,333	2/14/2018
Andy Sassine	(4)	10/1/2012	200,000.00	(75,000)	125,000	333,333	2/22/2018
SAIL Venture Partners, LP	(3)	10/1/2012	187,500.00	(78,100)	109,400	312,500	2/26/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	62,500.00	(26,000)	36,500	104,166	2/26/2018
Highland Long/Short Healthcare Fund	(5)	10/1/2012	400,000.00	(166,700)	233,300	666,666	2/26/2018
Monarch Capital: Placement Agent Warrants	(6)	10/1/2012	-	-	-	183,332	2/27/2016
Rajiv Kaul	(10)	10/1/2012	100,000.00	(41,700)	58,300	166,666	3/2/2018
Meyer Proler MD	(7)	10/1/2012	50,000	(27,100)	22,900	83,333	04/04/2018
SAIL Venture Partners, LP	(3)	10/1/2012	250,000	(135,400)	114,600	416,666	04/14/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	250,000	(135,400)	114,600	416,666	04/14/2018
John M Pulos	(10)	10/1/2012	150,000	(81,300)	68,700	250,000	04/21/2018
SAIL Venture Partners, LP	(3)	10/1/2012	125,000	(67,700)	57,300	208,333	04/24/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	125,000	(67,700)	57,300	208,333	04/24/2018
Cummings Bay Capital LP	(5)	10/1/2012	150,000	(81,200)	68,800	250,000	04/24/2018
Monarch Capital: Placement Agent Warrants	(6)		-	-	-	66,666	04/24/2016
Antaeus Capital: Placement Agent Warrants	(11)		-	-	-	50,000	04/21/2016
Total Subordinated Convertible Promissory notes		10/1/2012	$ 2,500,000	$ (1,105,200)	$ 1,394,800	4,466,658	2016 - 2018
Totals			$ 5,523,900	$ (1,260,900)	$ 4,263,000	9,673,213	

(1) Mr. John Pappajohn is a Director of the Company. 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 anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) was $0.50 per share. Pursuant to a separate agreement that we entered into with Mr. Pappajohn on July 25, 2010, we 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 was subject to customary anti-dilution adjustments, but would never be less than $0.30. Each Bridge Note accrued interest at a rate of 9% per annum.

On October 1, 2010, we entered into a Note and Warrant Purchase Agreement (the "October Purchase Agreement") with John Pappajohn, pursuant to which we issued to Mr. Pappajohn October Notes in the aggregate principal amount of $761,700 and warrants to purchase up to 1,269,478 shares of common stock. The Company received $250,000 in gross proceeds from the issuance of October Notes in the aggregate principal amount of $250,000 and related warrants to purchase up to 416,666 shares. We also issued October Notes in the aggregate principal amount of $511,700, and related warrants to purchase up to 852,812 shares, to Mr. Pappajohn in exchange for the cancellation of the two Bridge Notes originally issued to him on June 3, 2010 and July 25, 2010 in the aggregate principal amount of $500,000 (and accrued and unpaid interest on those notes) and a warrant to purchase up to 250,000 shares originally issued to him on July 25, 2010. The transaction closed on October 1, 2010.

(2) Dr. George Kallins is a Director of the Company and together with his wife controls Deerwood Partners, LLC and Deerwood Holding, LLC. He is also the General Partner of BGN Acquisitions Ltd. LP.

On July 5, 2010 and August 20, 2010, we issued unsecured promissory notes (each, a "Deerwood Note") in the aggregate principal amount of $500,000 to Deerwood Partners LLC and Deerwood Holdings LLC, with each investor purchasing two notes in the aggregate principal amount of $250,000. The Deerwood Notes were to mature on December 15, 2010. We received $250,000 in gross proceeds from the issuance of the first two notes on July 5, 2010 and another $250,000 in gross proceeds from the issuance of the second two notes on August 20, 2010. In connection with the August 20, 2010 transaction, each of the two investors also received a warrant to purchase up to 75,000 shares of our common stock at an exercise price (subject to anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) of $0.56 per share.

SAIL Venture Partners L.P. ("SAIL") issued unconditional guaranties to each of the Deerwood investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under each Deerwood Note. SAIL's general partner is SAIL Venture Partners, LLC, of which our director David Jones is a senior partner. The obligations under each guaranty were independent of our obligations under the Deerwood Notes and separate actions could be brought against the guarantor. We entered into an oral agreement to indemnify SAIL and grant to SAIL a security interest in our assets in connection with the guaranties. In addition, on August 20, 2010, we granted SAIL warrants to purchase up to an aggregate of 100,000 shares of common stock at an exercise price (subject to anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) of $0.56 per share.

Each Deerwood Note accrued interest at a rate of 9% per annum and was convertible into shares of our common stock at a conversion price of $0.50. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $0.30.

On November 3, 2010, Deerwood Partners LLC, Deerwood Holdings LLC and BGN Acquisition Ltd. LP, executed the October Purchase Agreement. In connection therewith, we issued October Notes in the aggregate principal amount of $762,200 and warrants to purchase up to 1,270,414 shares of common stock, as follows: (a) We received $250,000 in gross proceeds from the issuance to BGN Acquisition Ltd., LP, of October Notes in the aggregate principal amount of $250,000 and related warrants to purchase up to 416,666 shares. (b) We also issued October Notes in the aggregate principal amount of $512,200, and related warrants to purchase up to 512,250 shares, to Deerwood Holdings LLC and Deerwood Partners LLC, in exchange for the cancellation of the Deerwood Notes originally issued on July 5, 2010 and August 20, 2010 in the aggregate principal amount of $500,000 (and accrued and unpaid interest on those notes) and warrants to purchase an aggregate of up to 150,000 shares originally issued on August 20, 2010. The related guaranties and oral indemnification and security agreement that had been entered into in connection with the Deerwood Notes were likewise terminated. SAIL, of which our director David Jones is a senior partner, issued unconditional guaranties to each of the Deerwood investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under the October Notes issued to such investors. The obligations under each guaranty are independent of our obligations under the October Notes and separate actions may be brought against the guarantor. In connection with its serving as guarantor, we granted SAIL warrants to purchase up to an aggregate of 341,498 shares of common stock. The warrants to purchase 100,000 shares of common stock previously granted to SAIL on August 20, 2010 were canceled.

(3) Mr. Dave Jones is a Director of the Company and is a senior partner of the general partner of SAIL Venture Partners, LP. of which SAIL 2010 Co-Investment Partners, L.P. is an affiliate.

(4) Mr. Andy Sassine is an accredited investor and has become a beneficial owner of more than 5% of our outstanding common stock.

(5) Highland Long/Short Healthcare Fund, whose Portfolio Manager is Michael Gregory, has become a beneficial owner of more than 5% of our outstanding common stock. For purposes of the beneficial ownership calculations in accordance with the rules of the Securities and Exchange Commission, Mr. Gregory is deemed to have voting and investment power over the Company's securities held by both Highland Long/Short Healthcare Fund and Cummings Bay Capital, LP.

(6) Monarch Capital Group LLC ("Monarch") acted as non-exclusive placement agent with respect to the October 12, 2010 placement of October Notes in the aggregate principal amount of $100,000 and related warrants, pursuant to an engagement agreement, dated September 30, 2010, between the Company and Monarch. Under the engagement agreement, in return for its services as non-exclusive placement agent, Monarch was entitled to receive (a) a cash fee equal to 10% of the gross proceeds raised from the sale of October Notes to investors introduced to the Company by Monarch; (b) a cash expense allowance equal to 2% of the gross proceeds raised from the sale of October Notes to such investors; and (c) five-year warrants (the "2010 Placement Agent Warrants") to purchase common stock of the Company equal to 10% of the shares issuable upon conversion of October Notes issued to such investors. In connection with the October 12, 2010 closing, Monarch received a cash fee of $10,000 and a cash expense allowance of $2,000 and, on October 25, 2010, received 2010 Placement Agent Warrants to purchase 33,333 shares of the Company's common stock at an exercise price of $0.33 per share.

Monarch has also acted as non-exclusive placement agent with respect to the placement of January Notes in the aggregate principal amount of $550,000 and related warrants, pursuant to an engagement agreement, dated January 19, 2011 which has the same terms as the September 30, 2010 agreement between the Company and Monarch. In connection with acting as nonexclusive placement agent with respect to January Notes in the aggregate principal amount of $550,000 and related warrants, Monarch received aggregate cash fees of $55,000 and an aggregate cash expense allowance of $11,000 and five-year warrants (the "2011 Placement Agent Warrants") to purchase an aggregate of up to 183,332 shares of the Company's common stock at an exercise price of $0.33 per share. The 2011 Placement Agent Warrants have an exercise price equal to 110% of the conversion price of the January Notes and an exercise period of five years. The terms of the 2011 Placement Agent Warrants, except for the exercise price and period, are identical to the terms of the warrants related to the January Notes.

Monarch has acted as non-exclusive placement agent with respect to the placement of certain of the abovementioned January Notes in the aggregate principal amount of $200,000 and related warrants, pursuant to an engagement agreement, dated January 19, 2011 which has the same terms as the abovementioned September 30, 2010 agreement between the Company and Monarch. In connection with acting as nonexclusive placement agent with respect to two January Notes dated April 5, 2011 and April 25, 2011 in the aggregate principal amount of $200,000 and related warrants, Monarch received aggregate cash fees of $20,000 and an aggregate cash expense allowance of $4,000 and 2011 Placement Agent Warrants to purchase an aggregate of up to 66,666 shares of the Company's common stock at an exercise price of $0.33 per share.

(7) Dr. Meyer Proler is an accredited investor who provides medical consulting services to the Company.

(8) The Robert Frommer Family Trust is an accredited investor, the trustee of which is the father-in-law of the Company's Chief Executive Officer, George Carpenter.

(9) Mr. Paul Buck is the Chief Financial Officer of the Company.

(10) All these investors are accredited.

(11) Antaeus Capital, Inc. acted as non-exclusive placement agent with respect to the placement of January Notes. in the aggregate principal amount of $150,000 and related warrants, pursuant to an engagement agreement, dated April 15, 2011, between the Company and Antaeus. Under the engagement agreement, in return for its services as non-exclusive placement agent, Antaeus is entitled to receive (a) a cash fee equal to 10% of the gross proceeds raised from the sale of January Notes to investors introduced to the Company by Antaeus; and (b) 2011 Placement Agent Warrants to purchase the Company's common stock equal to 10% of the gross amount of securities sold to such investors. In connection with acting as nonexclusive placement agent with respect to January Notes in the aggregate principal amount of $150,000 and related warrants, Antaeus received aggregate cash fees of $15,000 and 2011 Placement Agent Warrants to purchase an aggregate of up to 50,000 shares of the Company's common stock at an exercise price of $0.33 per share.

(12) The October Purchase Agreement provides for the issuance and sale of October Notes, for cash or in exchange for outstanding convertible notes, in the aggregate principal amount of up to $3,000,000 plus an amount corresponding to accrued and unpaid interest on any exchanged notes, and warrants to purchase a number of shares corresponding to 50% of the number of shares issuable on conversion of the October Notes. The agreement provides for multiple closings, but mandates that no closings may occur after January 31, 2011. The October Purchase Agreement also provides that the Company and the holders of the October Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the October Notes and the related warrants.

The October Notes mature one year from the date of issuance (subject to earlier conversion or prepayment), earn interest equal to 9% per year with interest payable at maturity, and are convertible into shares of common stock of the Company at a conversion price of $0.30. The conversion price is subject to adjustment upon (i) the subdivision or combination of, or stock dividends paid on, the common stock; (ii) the issuance of cash dividends and distributions on the common stock; (iii) the distribution of other capital stock, indebtedness or other non-cash assets; and (iv) the completion of a financing at a price below the conversion price then in effect. The October Notes are furthermore convertible, at the option of the holder, into securities to be issued in subsequent financings at the lower of the then-applicable conversion price or price per share payable by purchasers of such securities. The October Notes can be declared due and payable upon an event of default, defined in the October Notes to occur, among other things, if the Company fails to pay principal and interest when due, in the case of voluntary or involuntary bankruptcy or if the Company fails to perform any covenant or agreement as required by the October Note.

Our obligations under the terms of the October Notes are secured by a security interest in the tangible and intangible assets of the Company, pursuant to a Security Agreement, dated as of October 1, 2010, by and between the Company and John Pappajohn, as administrative agent for the holders of the October Notes. The agreement and corresponding security interest terminate if and when holders of a majority of the aggregate principal amount of October Notes issued have converted their October Notes into shares of common stock.

The warrants related to the October Notes expire seven years from the date of issuance and are exercisable for shares of common stock of the Company at an exercise price of $0.30. Exercise price and number of shares issuable upon exercise are subject to adjustment (1) upon the subdivision or combination of, or stock dividends paid on, the common stock; (2) in case of any reclassification, capital reorganization or change in capital stock and (3) upon the completion of a financing at a price below the exercise price then in effect. Any provision of the October Notes or related warrants can be amended, waived or modified upon the written consent of the Company and holders of a majority of the aggregate principal amount of such notes outstanding. Any such consent will affect all October Notes or warrants, as the case may be, and will be binding on all holders thereof.

(13) The 2011 Note and Warrant Purchase Agreement (the" January Purchase Agreement") provides for the issuance and sale of January Notes in the aggregate principal amount of up to $5,000,000, and warrants to purchase a number of shares corresponding to 50% of the number of shares issuable on conversion of the January Notes, in one or multiple closings to occur no later than July 31, 2011. The January Purchase Agreement also provides that the Company and the holders of the January Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the January Notes and the related warrants.

The terms of the January Notes are identical to the terms of the October Notes, except that (i) the January Notes are not secured by any of the Company's assets, (ii) the January Notes are subordinated in all respects to the Company's obligations under the October Notes and the related guaranties issued to certain investors by SAIL and (iii) the Company is not subject to a restrictive covenant to the use of proceeds from the sale of the January Notes only for current operations. The terms of the new warrants are identical to the terms of the warrants issued in connection with the October Notes.

As of September 30, 2011 outstanding secured convertible promissory notes (October Notes) were $3,023,900 (including $24,000 corresponding to accrued and unpaid interest on the exchanged notes) and debt discount was $155,700. During the year ended September 30, 2011 the Company amortized $2,868,200 of the debt discount.

As of September 30, 2011 outstanding unsecured convertible promissory notes (January Notes) were $2,500,000 and debt discount was $1,105,200. During the year ended September 30, 2011 the Company amortized $1,394,800 of the debt discount.

The combined outstanding secured and unsecured convertible promissory notes as of September 30, 2011 were $5,523,900 and debt discounts were $1,260,900. During the year ended September 30, 2011 the Company amortized $4,263,000 of the debt discount.

In connection with our application to list our securities on the TSXV and the contemplated public offering of securities in Canada and the United States, we have entered into the following agreements on June 3, 2011 with holders of our October Notes, January Notes, and related warrants:

1. Holders of 100% of our 2010 Placement Agent Warrants and 2011 Placement Agent Warrants initially issued to Monarch Capital Group LLC and Antaeus Capital, Inc. have agreed to amend such warrants to remove full ratchet anti-dilution protection from the terms of the warrants. This amendment is conditioned on the closing of the proposed offering, provided that the proposed offering yields gross proceeds to the Company of at least $10 million, and is effective immediately prior to the closing of the proposed offering. As consideration for this amendment, we expect to issue warrants to purchase an aggregate of 116,664 shares of our common stock to such holders, with each holder receiving a warrant to purchase a number of shares of common stock corresponding to 25% of the number of shares issuable upon exercise of their placement agent warrants.

2. Holders of our convertible notes in the aggregate principal amount of $5,523,900 and holders of warrants to purchase 9,673,213 shares of our common stock issued in connection with our convertible notes and the related guaranties (representing 100% of the aggregate principal amount of notes and related warrants outstanding), have entered into an agreement with us, which we refer to as the "Agreement to Convert and Amend". The Agreement to Convert and Amend, was superseded by the Amendment and Conversion Agreements, detailed below.

In September 2011, it was determined that proceeding with the contemplated public offering of securities in Canada and listing on the TSXV was not viable due to the highly volatile market conditions at that time and the decision was made to terminate the offering.

On October 11, 2011, the Company, with the consent of holders of a majority in aggregate principal amount outstanding (the "Majority Holders") of its outstanding subordinated unsecured convertible notes (the "January Notes") amended all of the January Notes to extend the maturity of such notes until October 1, 2012. The amendment, which is effective as of September 30, 2011, also added a mandatory conversion provision to the terms of the January Notes. Under that provision, the January Notes would be automatically converted upon the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million (the "Qualified Offering"). If the public offering price is less than the conversion price then in effect, the conversion price will be adjusted to match the public offering price (the "Qualified Offering Price"). Pursuant to the terms of the amendment, the January Notes would receive a second position security interest in the assets of the Company (including its intellectual property). The Majority Holders of the January Notes also consented to the terms of a new $2 million bridge financing (the "Bridge Financing") and to granting the investors in such financing a second position security interest in the assets of the Company (including its intellectual property) that is pari passu with the second position security interest received by the holders of the January Notes.

On October 12, 2011, the Company, with the consent of the Majority Holders of its senior secured convertible notes (the "October Notes"), amended all of the October Notes to extend the maturity of such notes until October 1, 2012. The amendment, which is effective as of September 30, 2011, also added the same mandatory conversion and conversion price adjustment provisions to the terms of the October Notes as were added to the terms of the January Notes. The Majority Holders of the October Notes also consented to the terms of the Bridge Financing and to granting the investors in such financing as well as the holders of the Company's January Notes a second position security interest in the assets of the Company (including its intellectual property). The guaranties that had been issued in 2010 to certain October Note investors by SAIL Venture Partners, L.P. were extended accordingly.

Pursuant to the agreements amending the October Notes and January Notes (the "Amendment and Conversion Agreements"), the exercise price of the warrants that were issued in connection with the October Notes and the January Notes (the "Outstanding Warrants") will be adjusted to match the Qualified Offering Price, if such price is lower than the exercise price then in effect. The Company agreed to issue to each holder of the October Notes and January Notes, as consideration for the above, warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by each holder upon conversion of their notes at the closing of the Qualified Offering (the "Consideration Warrants"). The Consideration Warrants would be issued after the Qualified Offering and would have the same terms as the Outstanding Warrants, as amended.

The Amended and Restated Security Agreement, dated as of September 30, 2011, between the Company and Paul Buck, as administrative agent for the secured parties (the "Amended and Restated Security Agreement"), which replaces the existing security agreement from 2010, and the corresponding security interest terminate (1) with respect to the October Notes, if and when holders of a majority of the aggregate principal amount of October Notes issued have converted their notes into shares of common stock and, (2) with respect to the January Notes and notes to be issued in the Bridge Financing (the "Bridge Notes"), if and when holders of a majority of the aggregate principal amount of January Notes and Bridge Notes (on a combined basis) have converted their notes.

Assuming the Qualified Offering had been consummated on September 30, 2011, notes in the aggregate principal amount and accrued interest through September 30, 2011 of approximately $5,908,404 would have been converted into 19,694,680 shares of our common stock and Consideration Warrants would have been issued to purchase an aggregate of 5,908,404 shares of our common stock.

The Company evaluated the Amendment and Conversion Agreements, effective September 30, 2011 and the October Purchase Agreement, effective September 30, 2010, under ASC 470-50-40 "Extinguishments of Debt" ("ASC 470"). ASC 470 requires modifications to debt instruments to be evaluated to assess whether the modifications are considered "substantial modifications". A substantial modification of terms shall be accounted for like an extinguishment. For extinguished debt, a difference between the re-acquisition price and the net carrying amount of the extinguished debt shall be recognized currently in income of the period of extinguishment as losses or gains. The Company noted the change in terms per the Amendment and Conversion Agreements and the October Purchase Agreement, met the criteria for substantial modification under ASC 470, and accordingly treated the modification as extinguishment of the original convertible notes, replaced by the new convertible notes under the modified terms. The Company recorded a loss on extinguishment of debt of $1,968,000 and $1,094,300 for the years ended September 30, 2011 and 2010, respectively.

4. STOCKHOLDERS' EQUITY

Common and Preferred Stock

As of September 30, 2011 the Company is authorized to issue 750,000,000 shares of common stock at par value of $0.001 per share.

As of September 30, 2011, CNS California is authorized to issue 100,000,000 no par value 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 September 30, 2011, Colorado CNS Response, Inc. is authorized to issue 1,000,000 no par value shares of common stock.

As of September 30, 2011, 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.

On April 25, 2011 we issued 93,679 shares of common stock as payment in lieu of cash for an aggregate amount of $44,000 owed to two vendors who had provided consulting services to the Company. These shares were issued to these vendors, who were also accredited investors, at $0.47 per share. This was based on the quoted closing price of the Company's stock on March 11, 2011, which was the date that our Board approved this stock issuance.

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.

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 at some time 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. No options have been granted to non-accredited investors at this time.

On July 5, 2010, the Board of Directors also approved an additional grant of 800,000 options to a new member of the executive management team, a new member of the board of directors and a new advisor to the Company. The respective vesting periods are the same as those for the abovementioned March 3, 2010 grants. The effective grant date for these accredited investors was July 5, 2010 and the exercise price of $0.40 per share was based on the quoted closing share price of the Company's stock on July 2, 2010 as markets were closed for the 4th of July holiday weekend.

On March 11, 2011, the Board of Directors also approved an additional grant of 475,000 options to staff members of the Company. The options will vest equally over a 48 month period. The effective grant date for these accredited investors was March 11, 2011 and the exercise price of $0.47 per share was based on the quoted closing share price of the Company's stock on March 11, 2011.

As of September 30, 2011, 2,124,740 options were exercised and there were 15,725,121 options and 183,937 restricted shares outstanding under the amended 2006 Plan leaving 1,966,202 shares available for issuance of future awards.

The Company estimates the fair value of each option on the grant date using the Black-Scholes model. The following assumptions were made in estimating the fair value:

		2011		2010
Annual dividend yield		-		-
Expected life (years)		5		5
Risk-free interest rate		2.04%		1.81%-3.62%
Expected volatility		281%		215%-536%
Fair value of options granted	$	0.47	$	0.40-$0.54

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 year ended September 30, 2011 and 2010 is as follows:

	For the year ended September 30,			
		2011		2010
Cost of Neurometric Services revenues	$	10,200	$	18,000
Research		199,300		280,600
Product Development		67,700		61,000
Sales and marketing		209,000		197,200
General and administrative		1,119,200		745,300
Total	$	1,605,400	$	1,302,100

Total unrecognized compensation as of September 30, 2011 amounted to $2,893,900.

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	9,450,000		0.54
Exercised	-		-
Forfeited	(441,041)		0.81
Outstanding at September 30, 2010	15,670,973	$	0.62
Granted	475,000		0.47
Exercised	-		-
Forfeited	(420,852)		0.47
Outstanding at September 30, 2011	15,725,121	$	0.62

Following is a summary of the status of options outstanding at September 30, 2011:

Exercise Price	Number of Shares	Weighted Average Contractual Life	Weighted Average Exercise Price	Vested at September 30, 2011	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value at September 30, 2011
$ 0.12	859,270	10 years	$ 0.12	859,270	4.9	$ 111,700
$ 0.132	987,805	10 years	0.132	987,805	4.9	116,600
$ 0.30	135,700	10 years	0.30	135,700	5.1	-
$ 0.59	28,588	10 years	0.59	28,588	4.9	-
$ 0.80	140,000	10 years	0.80	137,500	6.2	-
$ 0.89	968,875	10 years	0.89	968,875	6.0	-
$ 0.96	352,974	10 years	0.96	352,974	6.5	-
$ 1.09	2,513,549	10 years	1.09	2,513,549	5.9	-
$ 1.20	243,253	5 years	1.20	243,253	0.9	-
$ 0.40	856,000	10 years	0.40	342,470	8.8	-
$ 0.47	475,000	10 years	0.47	69,286	9.4	-
$ 0.51	41,187	10 years	0.51	41,187	7.0	-
$ 0.55	8,122,920	10 years	0.55	3,530,046	8.4	-
Total	15,725,121		$ 0.62	10,210,503	7.3	$ 228,300

We have entered into agreements on June 3, 2011 with the majority of our option holders pursuant to which holders of options to purchase an aggregate of 13,190,658 shares of our common stock, at exercise prices ranging from $0.12 per share to $1.09 per share, have agreed to amend their options to permit exercise only in cash and to limit the period during which the options may be exercised post-termination to 90 days (for employees) and twelve months (for consultants).

We have agreed to freeze any further grants or exercises of securities under the 2006 Plan and adopt a new stock incentive plan subject to and in connection with the completion of this proposed offering. The new plan, which we refer to as the 2011 Stock Incentive Plan, would be subject to approval by our stockholders, which we expect to seek at a meeting of stockholders to be called as soon as practicable following completion of the proposed offering.

Warrants to Purchase Common Stock

The warrant activity for the years ending September 30, 2011 and 2010 respectively are described as follows:

Warrants		Exercise Price	Issued, Surrendered or Expired in Connection With:
15,537,485			**Warrants outstanding at October 1 2009**
5,893,334	$	0.30	Warrants issued in second, third and fourth closing of the 2009 private placement transaction of 11,786,667 shares at $0.30 with 50% warrant coverage as described in Note 3.
1,200,267	$	0.33	Warrants issued to lead and secondary placement agents for private placement as described in Note 3.
(3,333,333)	$	0.30	Warrants surrendered in a net issue exercise and 2,456,126 shares were issued in lieu of cash.
500,000	$	0.30	Warrants granted to individual staff members of Equity Dynamics, Inc. a Company owned by Mr. Pappajohn, for their efforts in providing consulting services associated with the Company's financing activities.
852,812	$	0.30	Warrants issued to Mr. John Pappajohn, a Director of the Company, pursuant to the October Note and Warrant Purchase agreement described in note 3; whereby two outstanding convertible notes of $250,000 each, issued on June 3 and July 25, 2010 respectively, and 250,000 outstanding warrants issued on July 25, 2010, with an exercise price of $0.50, were cancelled and exchanged on October 1, 2010 for two October Notes of $250,000 each plus unpaid interest and warrants to purchase 852,812 shares of common stock.
256,125	$	0.30	Warrants issued to Deerwood Partners, LLC which is controlled by Dr. George Kallins, a Director of the Company, pursuant to the October Note and Warrant Purchase Agreement described in note 3; whereby two Deerwood Notes of $125,000 each, issued on July 5 and August 20, 2010 respectively, and 75,000 outstanding warrants issued on August 20, 2010, with an exercise price of $0.56 were, cancelled and exchanged on November 3, 2010 for two October Notes of $125,000 each plus unpaid interest and warrants to purchase 256,125 shares of common stock.
256,125	$	0.30	Warrants issued to Deerwood Holdings, LLC which is controlled by Dr. George Kallins, a Director of the Company, pursuant to the October Note and Warrant Purchase Agreement described in note 3; whereby the two Deerwood Notes of $125,000 each, issued on July 5 and August 20, 2010 respectively, and 75,000 outstanding warrants issued on August 20, 2010, with an exercise price of $0.56, were cancelled and exchanged on November 3, 2010 for two October notes of $125,000 each plus unpaid interest and warrants to purchase 256,125 shares of common stock.
341,498	$	0.30	Warrants issued to SAIL, of which Mr. David Jones, a Director of the Company, is a senior partner of the general partner. SAIL had undertaken to guarantee the four abovementioned Deerwood notes which were issued on July 5 and August 20, 2010. For this guarantee SAIL was issued 100,000 warrants on August 20, 2010 with an exercise price of $0.56. Upon the cancellation and exchange of the Deerwood Notes on November 3, 2010, SAIL undertook to guarantee the four replacement October Notes, in exchange for the cancellation of the SAIL's 100,000 outstanding warrants which were replaced with new warrants in the amount of 341,498.
21,504,313			**Warrants outstanding at September 30, 2010**
3,333,329	$	0.30	These warrants were issued to eight investors who purchased notes for $2,222,220 pursuant to the October Purchase Agreement described in note 3. These investors included three directors of the Company, Mr. David Jones, Mr. John Pappajohn and Dr. George Kallins, each of whom purchased notes for $250,000 ($750,000 in aggregate) either directly or through an entity that they control.
166,666	$	0.33	These warrants were issued to Monarch Capital who acted as placement agents in raising $500,000 from two investors who purchase notes pursuant to the October Purchase agreement described in note 3.
4,166,660	$	0.30	These warrants were issued to 12 investors who purchased notes for $2,500,000 pursuant to the January Purchase Agreement described in note 3. Of the 12 accredited investors during the January 2011 through April 2011 period, eight have previous relationships with the Company as follows: 1) A January Note in the principal amount of $50,000, and a warrant to purchase 83,333 shares were issued to the Company's Chief Financial Officer, Paul Buck. 2) Three January Notes in aggregate principal amount of $562,500, and warrants to purchase 937,499 shares were issued to SAIL Venture Partners, LP, of which David Jones, a director of the Company, is a senior partner of the general partner. 3) Three January Notes in aggregate principal amount of $437,500, and warrants to purchase 729,165 shares were issued to SAIL 2010 Co-Investment Partners, L.P., an entity likewise affiliated with Mr. Jones. 4) Two January Notes in aggregate principal amount of $100,000, and a warrant to purchase 166,666 shares were issued to Meyer Proler MD who first invested in 2006 and provides medical consulting services to the Company. 5) A January Note in the principal amount of $400,000 and a warrant to purchase 666,666 shares were issued to Highland Long /Short Healthcare fund which first invested in the company in October. 6) A January Note in the principle amount of $150,000 and a warrant to purchase 250,000 shares were issued to Cummings Bay Capital LP which has the same fund manager as the Highland Long/Short Healthcare Fund which first invested Company in October 2010. 7) A January Note in the principal amount of $200,000 and a warrant to purchase 333,333 shares were issued to Andy Sassine who had first invested in the Company in October 2010. 8) A January Note in the principal amount of $50,000 and a warrant to purchase 83,333 shares were issued to a trust, the trustee of which is the father-in-law of the Company's Chief Executive Officer, George Carpenter. 9) Four January Notes in aggregate amount of $550,000 were issued to new accredited investors together with warrants to purchase 916,665 shares.
299,998	$	0.33	These warrants were issued Monarch Capital who acted as placement agents in raising $750,000 from three investors who purchase January Notes pursuant to the January Purchase Agreement described in Note 3 and Antaeus Capital, Inc. who acted as placement agent in raising $150,000 from one investor who is purchased January Notes pursuant to the Note and Warrant Purchase agreement described in Note 3.
(42,331)	$	0.01	Warrants expired
(16,932)	$	0.01	Warrants were surrendered in a net issue exercise: 16,170 shares were issued in lieu of cash.
29,411,703			**Warrants outstanding at September 30, 2011**

At September 30, 2011, there were warrants outstanding to purchase 29,411,703 shares of the Company's common stock. The exercise price of the outstanding warrants range from $0.01 to $1.812 with a weighted average exercise price of $0.49. The warrants expire at various times 2011 through 2018.

5. INCOME TAXES

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance to reduce the Company's deferred tax assets to their estimated realizable value.

Reconciliations of the provision (benefit) for income taxes to the amount compiled by applying the statutory federal income tax rate to profit (loss) before income taxes is as follows for each of the years ended September 30:

	2011	2010
Federal income tax (benefit) at statutory rates	(34)%	(34)%
Stock-based compensation	0 %	0 %
Nondeductible interest expense	14 %	5 %
Extinguishment of debt	6 %	5 %
Change in valuation allowance	31 %	30 %
State tax benefit	(8)%	(6)%

Temporary differences between the financial statement carrying amounts and bases of assets and liabilities that give rise to significant portions of deferred taxes relate to the following at September 30, 2011 and 2010:

	2011	2010
Deferred income tax assets:		
Net operating loss carryforward	$ 10,821,500	$ 10,451,700
Deferred interest, consulting and compensation liabilities	2,400,500	1,776,800
Amortization	(7,100)	(34,400)
Deferred income tax assets – other	3,600	15,000
	13,218,500	12,209,100
Deferred income tax liabilities—other	-	-
Deferred income tax asset—net before valuation allowance	13,218,500	12,209,100
Valuation allowance	(13,218,500)	(12,209,100)
Deferred income tax asset—net	$ -	$ -

Current and non-current deferred taxes have been recorded on a net basis in the accompanying balance sheet. As of September 30, 2011, the Company has net operating loss carryforwards of approximately $25.6 million. The net operating loss carryforwards expire by 2030. Utilization of net operating losses and capital loss carryforwards may be subject to the limitations imposed by Section 382 of the Internal Revenue Code. The Company has placed a valuation allowance against the deferred tax assets in excess of deferred tax liabilities due to the uncertainty surrounding the realization of such excess tax assets. Management periodically evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced accordingly.

6. RELATED PARTY TRANSACTIONS

On December 24, 2009, the Company completed a second closing of its private placement in which the Company received gross proceeds of approximately $3 million, which included $108,000 invested by George Carpenter and $54,000 by Paul Buck. In exchange for their investment, the Company issued 360,000 and 180,000 shares of common stock and five year non-callable warrants to purchase 180,000 and 90,000 shares of common stock at an exercise price of $0.30 per share, to Mr. Carpenter and Mr. Buck, respectively. This investment was completed with terms identical to those received by all other investors in our private placement closings that took place on August 26, 2009, December 24, 2009, December 31, 2009 and January 4, 2010.

As at June 30, 2010, accrued consulting fees included $27,000 due to Dr. Henry Harbin, a director in accordance with a 12 month consulting agreement, the first term of which ended on December 31, 2010. The agreement was automatically renewed for an additional 12 month term effective January 1, 2011. In December, 2010 a payment of $9,000 was made to that director in connection with the consulting agreement. As at June 30, 2011, $36,000 was accrued for this director under the consulting agreement and a further $9,000 was paid in March, 2011.

On June 3, 2010, the Company 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 3 above.

On July 5, 2010 and August 20, 2010, the Company issued unsecured promissory notes (each, a "Deerwood Note") in the aggregate principal amount of $500,000 to Deerwood Partners LLC and Deerwood Holdings LLC, which are entities controlled by Dr George Kallins. For further detail, please refer to the section *2010 Promissory Note Transactions* in Note 3 above.

On July 5, 2010 the Board granted warrants to purchase 500,000 shares of common stock to members of staff of Equity Dynamics, Inc, a company owned by Mr. Pappajohn, for consulting services they had rendered to the Company, advising on and assisting with fund raising activities. Using the Black-Scholes model, these warrants were valued at $199,000 and expensed to consulting fees. 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.

On October 1, 2010, the Company entered into the October Purchase Agreement with John Pappajohn to purchase a secured promissory note in the principal amount of $250,000. Additionally, the Company entered into the October Purchase Agreement with SAIL Venture Partners, LP, of which our Director, David Jones, is a senior partner of the general partner, to purchase an October Note in the principal amount of $250,000. For further detail, please refer to the section *2010 Promissory Note Transactions* in Note 3 above.

On November 3, 2010, the Company entered into the October Purchase Agreement with BGN Acquisitions Ltd. LP, of which our Director, Dr. George Kallins, is the general partner, to purchase a secured promissory note in the principal amount of $250,000. For further detail, please refer to the section *2010 Promissory Note Transactions* in Note 3 above.

On November 24, 2010 the Board of Directors, excluding Mr. Pappajohn, resolved to ratify an engagement agreement with Equity Dynamics, Inc. a company owned by Mr. Pappajohn, to provide financial advisory services to assist the Company with the Company's fund raising efforts. These efforts have included advice and assistance with the preparation of Private Placement Memoranda, investor presentations, financing strategies, identification of potential and actual investors, and introductions to placement agents and investment bankers. The engagement agreement calls for a retainer fee of $10,000 per month starting February 1, 2010. As of June 30, 2011 the Company had accrued $170,000 for the services provided by Equity Dynamics of which $90,000 has been paid, leaving $80,000 due and outstanding as at June 30, 2011. The term of the agreement is for 12 months from its initiation and can be cancelled by either party, with or without cause, with 30 days written notice.

On February 15, 2011, pursuant to the January Purchase Agreement, we issued to Mr. Paul Buck, Chief Financial Officer of the Company, an Unsecured Note in the aggregate principal amount of $50,000 and related warrants to purchase up to 83,333 shares. Also on this date the Company pursuant to the January Purchase Agreement, issued an Unsecured Note in the aggregate principal amount of $50,000 and a warrant to purchase 83,333 shares to a trust, the trustee of which is the father-in-law of the Company's Chief Executive Officer, George Carpenter.

On February 23, 2011 an Unsecured Note in the aggregate principal amount of $200,000 and a warrant to purchase 333,333 shares of common stock was issued to Mr. Andy Sassine (an accredited investor who had previously invested in the Company and as a result of this purchase became a beneficial owner of more than 5% of our outstanding common stock).

On February 28, 2011, pursuant to the January Purchase Agreement, we issued to SAIL Venture Partners, LP January Notes in the aggregate principal amount of $187,500 and warrants to purchase up to 312,500 shares of common stock. Additionally, we issued to SAIL 2010 Co-Investment Partners, L.P., an affiliate of SAIL Venture Partners, LP January Notes in the aggregate principal amount of $62,500 and warrants to purchase up to 104,166 shares of common stock. We received $187,500 from SAIL Venture Partners, LP and $62,500 from SAIL 2010 Co-Investment Partners, L.P. for an aggregate total of $250,000 in gross proceeds. Our Director, David Jones, is a senior partner of the general partner of SAIL Venture Partners, LP. Also on February 28, 2011, pursuant to the 2011 Purchase Agreement, we issued an Unsecured Note in the aggregate principal amount of $400,000, and a warrant to purchase 666,666 shares of common stock to Highland Long/Short Healthcare Fund (which had previously invested in the Company and as a result of this purchase became a beneficial owner of more than 5% of our outstanding common stock).

On April 15, 2011, pursuant to the January Purchase Agreement, we issued to SAIL Venture Partners, LP additional January Notes in the aggregate principal amount of $250,000 and warrants to purchase up to 416,666 shares of common stock. Additionally, we issued to SAIL 2010 Co-Investment Partners, L.P. January Notes in the aggregate principal amount of $250,000 and warrants to purchase up to 416,666 shares of common stock. We received $250,000 from each of SAIL Venture Partners, LP and SAIL 2010 Co-Investment Partners, L.P. for an aggregate total of $500,000 in gross proceeds.

On April 25, 2011, pursuant to the January Purchase Agreement, we issued to SAIL Venture Partners, LP further January Notes in the aggregate principal amount of $125,000 and warrants to purchase up to 208,333 shares of common stock and issued to SAIL 2010 Co-Investment Partners, L.P. January Notes in the aggregate principal amount of $125,000 and warrants to purchase up to 208,333 shares of common stock. We received $125,000 from each of SAIL Venture Partners, LP and SAIL 2010 Co-Investment Partners, L.P. for an aggregate total of $250,000 in gross proceeds. Also on April 25, 2011, pursuant to the 2011 Purchase Agreement, we issued an Unsecured Note in the aggregate principal amount of $150,000, and a warrant to purchase 250,000 shares of common stock to Cummings Bay Healthcare Fund which has the same fund manager as the Highland Long/Short Healthcare Fund (which had previously invested in the Company and as a result of that prior purchase had already become a beneficial owner of more than 5% of our outstanding common stock).

On October 11, 2011, the Company, with the consent of holders of a majority in aggregate principal amount outstanding (the "Majority Holders") of its outstanding subordinated unsecured convertible notes (the "January Notes") amended all of the January Notes to extend the maturity of such notes until October 1, 2012. The amendment, which is effective as of September 30, 2011, also added a mandatory conversion provision to the terms of the January Notes. Under that provision, the January Notes would be automatically converted upon the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million (the "Qualified Offering"). If the public offering price is less than the conversion price then in effect, the conversion price will be adjusted to match the public offering price (the "Qualified Offering Price"). Pursuant to the terms of the amendment, the January Notes would receive a second position security interest in the assets of the Company (including its intellectual property). The Majority Holders of the January Notes also consented to the terms of a new $2 million bridge financing (the "Bridge Financing") and to granting the investors in such financing a second position security interest in the assets of the Company (including its intellectual property) that is pari passu with the second position security interest received by the holders of the January Notes.

On October 12, 2011, the Company, with the consent of the Majority Holders of its senior secured convertible notes (the "October Notes"), amended all of the October Notes to extend the maturity of such notes until October 1, 2012. The amendment, which is effective as of September 30, 2011, also added the same mandatory conversion and conversion price adjustment provisions to the terms of the October Notes as were added to the terms of the January Notes. The Majority Holders of the October Notes also consented to the terms of the Bridge Financing and to granting the investors in such financing as well as the holders of the Company's January Notes a second position security interest in the assets of the Company (including its intellectual property). The guaranties that had been issued in 2010 to certain October Note investors by SAIL Venture Partners, L.P. were extended accordingly.

Pursuant to the agreements amending the October Notes and January Notes (the "Amendment and Conversion Agreements"), the exercise price of the warrants that were issued in connection with the October Notes and the January Notes (the "Outstanding Warrants") will be adjusted to match the Qualified Offering Price, if such price is lower than the exercise price then in effect. The Company agreed to issue to each holder of the October Notes and January Notes, as consideration for the above, warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by each holder upon conversion of their notes at the closing of the Qualified Offering (the "Consideration Warrants"). The Consideration Warrants would be issued after the Qualified Offering and would have the same terms as the Outstanding Warrants, as amended.

The Amended and Restated Security Agreement, dated as of September 30, 2011, between the Company and Paul Buck, as administrative agent for the secured parties (the "Amended and Restated Security Agreement"), which replaces the existing security agreement from 2010, and the corresponding security interest terminate (1) with respect to the October Notes, if and when holders of a majority of the aggregate principal amount of October Notes issued have converted their notes into shares of common stock and, (2) with respect to the January Notes and notes to be issued in the Bridge Financing (the "Bridge Notes"), if and when holders of a majority of the aggregate principal amount of January Notes and Bridge Notes (on a combined basis) have converted their notes.

The terms of the 2011 Purchase Agreement, January Notes and related warrants are described above in the section *January 2011 Notes and Warrants* in Note 3.

7. REPORTABLE SEGMENTS

The Company operates in two business segments: reference neurometric and clinic. Neurometric Information Services (formerly called Laboratory Information Services) provides data to psychiatrists and other physicians/prescribers to enable them to make a more informed decision when treating a specific patient with mental, behavioral and/or addictive disorders provides reports ("PEER Reports"). The Clinic segment 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 (loss) from operations, the most directly comparable measure in accordance with generally accepted accounting principles in the United States, or GAAP:

	Year ended September 30, 2011			
	Neurometric Information Services	Clinic	Eliminations	Total
Revenues	146,200	634,500	(34,800)	745,900
Operating expenses:				
Cost of revenues	147,100	34,800	(34,800)	147,100
Research	482,800	-	-	482,800
Product development	442,000	-	-	442,000
Sales and marketing	1,132,800	98,700	-	1,231,500
General and administrative	3,197,900	1,074,000		4,271,900
Total operating expenses	5,402,600	1,207,500	(34,800)	6,575,300
Loss from operations	$ (5,256,400)	$ (573,000)	$ 0	$ (5,829,400)

	Year ended September 30, 2010			
	Neurometric Information Services	Clinic	Eliminations	Total
Revenues	156,000	535,700	(53,200)	638,500
Operating expenses:				
Cost of revenues	135,100	19,900	(19,900)	135,100
Research and development	738,800	-	-	738,800
Product development	381,700	-	-	381,700
Sales and marketing	853,100	17,800	-	870,900
General and administrative	4,296,200	754,100	(33,300)	5,017,000
Total operating expenses	6,404,900	791,800	(53,200)	7,143,500
Loss from operations	$ (6,248,900)	$ (256,100)	$ 0	$ (6,505,000)

The following table includes selected segment financial information as of September 30, 2011, related to total assets:

	Reference Neurometric	Clinic	Total
Total assets	$ 308,800	$ 61,200	$ 370,000

8. 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 years ended September 30, 2011 and 2010, 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 years ended September 30, 2011 and 2010 is as follows:

	2011	2010
Net loss for computation of basic net income (loss) per share	$ (8,866,600)	$ (8,174,000)
Net income (loss) for computation of dilutive net income (loss) per share	$ (8,866,600)	$ (8,174,000)
Basic net income (loss) per share	$ (0.16)	$ (0.16)
Diluted net income (loss) per share	$ (0.16)	$ (0.16)
Basic weighted average shares outstanding	56,071,120	52,277,119
Dilutive common equivalent shares	-	-
Diluted weighted average common shares	56,071,120	52,277,119
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	14,224,146	214,561
Warrants	27,240,979	19,194,806
Options	15,644,098	11,242,729

9. COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

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

Since June of 2009, the Company has been involved in litigation against Leonard J. Brandt, a stockholder, former director and the Company's 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 the Company's 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, the Company filed an action in the United States District Court for the Central District of California against Mr. Brandt and certain others. The Company's 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 the Company or the Company's officers and directors in connection with Mr. Brandt's proxy and consent solicitations. On March 10, 2010, the Company dismissed the Company's claims against EAC, and EAC dismissed its claims against the Company 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.

On April 11, 2011, Mr. Brandt and his family business partnership Brandt Ventures, GP filed an action in the Superior Court for the State of California, Orange County against CNS Response, Inc., one of its stockholders and a member of the board of directors, alleging breach of a promissory note agreement entered into by Brandt Ventures, GP and the Company and alleging that Mr. Brandt was wrongfully terminated as CEO in April, 2009 for which he is seeking approximately $170,000 of severance. The plaintiffs seek rescission of a $250,000 loan made by Brandt Ventures, GP to the Company which was converted into common stock in accordance with its terms, restitution of the loan amount and compensatory and punitive damages for Mr. Brandt's termination. The Company was served with a summons and complaint in the action on July 19, 2011. On November 1, 2011, Mr. Brandt filed an amended complaint amending their claims and adding new claims against the same parties. CNS Response, Inc. believes the complaint to be devoid of any merit and will aggressively defend the action if the plaintiffs decide to proceed with it.

The Company has expended substantial resources to pursue the defense of legal proceedings initiated by Mr. Brandt. The Company does not know whether Mr. Brandt will institute additional claims against the Company 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 Neurometric 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 Neurometric 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 remaining lease obligation totals $65,600: being $49,000 and $16,600 for fiscal years 2012 and 2013 respectively.

The Company leases space for its Clinical Services operations under an operating lease. The original 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 remaining lease obligation totals $104,100: being $65,400 and $38,700 for fiscal years 2012 and 2013 respectively.

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 incurred rent expense of $92,600 and $121,100 for the years ended September 30, 2011 and 2010 respectively.

On November 8, 2010 we entered into a financial lease to acquire EEG equipment costing $15,900. The term of the lease is 48 months ending October 2014 and the monthly payment is $412. As of September 30, 2011 the remaining lease obligation is $14,700: being $4,900, $4,900 and $4,900 for fiscal years 2012, 2013 and 2014 respectively.

10. SIGNIFICANT CUSTOMERS

For the year ended September 30, 2011, three customers accounted for 41% of Neurometric Information Services revenue and 58% of accounts receivable at September 30, 2011.

For the year ended September 30, 2010, four customers accounted for 48% of Neurometric Information Services revenue and two customers 27% of accounts receivable at September 30, 2010

11. SUBSEQUENT EVENTS

Events subsequent to September 30, 2011 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 September 30, 2011.

On October 12, 2011, the Company received a $250,000 loan from its director John Pappajohn and on October 18, 2011, the Company entered into a new Note and Warrant Purchase Agreement (the “Bridge Financing Purchase Agreement”) in connection with a $2 million Bridge Financing, with John Pappajohn, a member of the Company’s Board of Directors. Pursuant to the agreement and in connection with the October 12, 2011 loan, the Company issued subordinated secured convertible notes (the “Bridge Notes”) in the aggregate principal amount of $250,000 and warrants to purchase 1,250,000 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $250,000. On October 31, 2011, the Company issued Bridge Notes in the aggregate principal amount of $20,000 to an additional accredited investor, together with warrants to purchase 100,000 shares of common stock.

On November 11, 2011, the Company entered into an Amended and Restated Note and Warrant Purchase Agreement (the “Amended Bridge Financing Purchase Agreement”) in connection with the $2 million Bridge Financing with accredited investors. Pursuant to the agreement, the Company on November 11, 2011 and November 17, 2011 issued Bridge Notes in the aggregate principal amount of $560,000 and warrants to purchase 5,600,000 shares of common stock to three accredited investors for gross proceeds to the Company of $560,000. Of these amounts, John Pappajohn, a member of the Company’s Board of Directors, purchased a Bridge Note in the aggregate principal amount of $250,000 and a warrant to purchase 2,500,000 shares, and as further described below, Zanett Opportunity Fund, Ltd. purchased a Bridge Note in the aggregate principal amount of $250,000 and warrants to purchase 2,500,000 shares of common stock.

The Amended Bridge Financing Purchase Agreement amended and restated the October agreement in that it increased the warrant coverage from 50% to 100%. In addition, each holder’s option to redeem or convert their Bridge Note at the closing of the Qualified Offering can now only be amended, waived or modified with the consent of the Company and that holder. Consequently, the shares underlying the warrants that had been issued to Mr. Pappajohn and the second accredited investor in October were increased to an aggregate of 2,700,000 shares of common stock. On November 17, 2011, Zanett Opportunity Fund, Ltd., a Bermuda corporation for which McAdoo Capital, Inc. is the investment manager, purchased Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 2,500,000 shares of common stock for cash payments aggregating $250,000. Mr. Zachary McAdoo is the president and owner of McAdoo Capital. On November 21, 2011, the Board of Directors of the Company elected Mr. McAdoo to the Board where he also serves as Chairman of the Board’s Audit Committee. Including the amounts issued in October and November 2011 (as revised to reflect the increase in warrant coverage), to date, the Company has issued Bridge Notes in the aggregate principal amount of $830,000 and warrants to purchase 8,300,000 shares of common stock pursuant to the Amended Bridge Financing Purchase Agreement.

The Amended Bridge Financing Purchase Agreement provides for the issuance and sale of Bridge Notes (including the notes issued in October 2011) in the aggregate principal amount of up to $2,000,000, and warrants to purchase a number of shares corresponding to 100% of the number of shares issuable on conversion of the Bridge Notes, in one or multiple closings to occur no later than April 1, 2012. The Bridge Financing Purchase Agreement also provides that the Company and the holders of the Bridge Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the Bridge Notes and the related warrants.

The Bridge Notes mature one year from the date of issuance (subject to earlier conversion or prepayment), earn interest equal to 9% per year with interest payable at maturity, are convertible into shares of common stock of the Company at a conversion price of $0.10, are secured by a second position security interest in the Company's assets that is pari passu with the interest recently granted to the holders of the Company's January Notes, are subordinated in all respects to the Company's obligations under its October Notes and the related guaranties issued to certain investors by SAIL Venture Partners, L.P. and are pari passu to the obligations under the January Notes. The second position security interest is governed by the amended and restated security agreement, dated as of September 30, 2011, between the Company and Paul Buck, as administrative agent for the secured parties (the "Amended and Restated Security Agreement"), which replaced the security agreement entered into in connection with the issuance of the October Notes in 2010.

The conversion price of the Bridge Notes is subject to adjustment upon (1) the subdivision or combination of, or stock dividends paid on, the common stock; (2) the issuance of cash dividends and distributions on the common stock; (3) the distribution of other capital stock, indebtedness or other non-cash assets; and (4) the completion of a financing at a price below the conversion price then in effect. At the closing of the Qualified Offering, each Bridge Note will be either redeemed or converted (in whole or in part) at a conversion price equal to the lesser of the public offering price or the conversion price then in effect, with the choice between redemption and conversion being at the sole option of the holder. The Bridge Notes can be declared due and payable upon an event of default, defined in the Bridge Notes to occur, among other things, if the Company fails to pay principal and interest when due, in the case of voluntary or involuntary bankruptcy or if the Company fails to perform any covenant or agreement as required by the Bridge Note or materially breaches any representation or warranty in the Bridge Note or the Amended Bridge Financing Purchase Agreement.

The warrants related to the Bridge Notes expire five years from the date of issuance and are exercisable for shares of common stock of the Company at an exercise price of $0.10. Exercise price and number of shares issuable upon exercise are subject to adjustment (1) upon the subdivision or combination of, or stock dividends paid on, the common stock; (2) in case of any reclassification, capital reorganization or change in capital stock and (3) upon the completion of a financing at a price below the exercise price then in effect (including the Qualified Offering), except that subsequent to the Qualified Offering, the exercise price will not be adjusted for any further financings. The warrants contain a cashless exercise provision.

With the exception of each holder's option to redeem or convert their Bridge Note at the closing of the Qualified Offering, any provision of the Bridge Notes or related warrants can be amended, waived or modified upon the written consent of the Company and holders of a majority of the aggregate principal amount of such notes outstanding. Any such majority consent will affect all Bridge Notes or warrants, as the case may be, and will be binding on the Company and all holders of the Bridge Notes or warrants. Each holder's option to redeem or convert the Bridge Note at the closing of the Qualified Offering cannot be amended, waived or modified without the written consent of the Company and such holder and such amendment, waiver or modification will be binding only on the Company and such holder.

As a result of the issuance of the Bridge Notes and related warrants, the conversion prices of the October Notes and January Notes and the related warrants were automatically adjusted, under the terms of such notes and warrants, to match the $0.10 conversion price of the Bridge Notes and the $0.10 exercise price of the related warrants. As a result, an aggregate of 30,239,280 and 25,000,000 shares of common stock are issuable upon conversion of the October Notes and January Notes, respectively, and an aggregate of 27,619,647 shares of common stock are issuable upon exercise of the warrants related to the October Notes and January Notes. Additionally, an aggregate of 899,994 shares of common stock are issuable upon exercise of warrants by placement agents.

Since September 30, 2011, 84,661 warrants with an exercise price of $0.01 have been exercised and 2,628,504 warrants with exercise prices ranging from $0.01 to $1.812 have expired.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. 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 Rule 13a-15, as of September 30, 2011, 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 as of September 30, 2011.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of, our PEO and PFO and effected by our board of directors, management, and other personnel, 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 and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer (PEO) and Chief Financial Officer (PFO), do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Also, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Assessment of Internal Controls Over Financial Reporting

Members of our management, including our PEO and our PFO, have evaluated the effectiveness of our internal control over financial reporting as of September 30, 2011, based on the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and we concluded that our internal controls over financial reporting were not effective.

The following significant deficiency (as defined below) was identified, which in combination with other deficiencies may constitute a material weakness (as defined below):

- We do not have a comprehensive and formalized accounting and procedures manual.

A "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

A "significant deficiency" is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting.

To the knowledge of our management, including our PEO and PFO, the aforementioned significant deficiency has not led to a misstatement of our results of operations for the year ended September 30, 2011, or statement of financial position as of September 30, 2011.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

During the quarterly period ending September 30, 2011, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

Jerome Vaccaro has resigned as a member of the Company's board of directors effective October 31, 2011.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The following table sets forth the name, age and position of each of our directors and executive officers and the current positions they hold with us:

Name	Age	Position
David B. Jones	68	Chairman of the Board
George Carpenter	53	Director, President and Chief Executive Officer
John Pappajohn	83	Director
Henry T. Harbin, M.D	65	Director
George Kallins, M.D.	51	Director
Zachary McAdoo	39	Director
Paul Buck	56	Chief Financial Officer and Secretary
Daniel Hoffman, M.D.	63	Chief Medical Officer
Michael Darkoch	67	Executive Vice President and Chief Marketing Officer

David B. Jones, Chairman of the Board

David B. Jones has been a director of CNS California since August 2006, and became a director of our company upon the completion of our merger with CNS California on March 7, 2007. On April 29, 2011, Mr. Jones was appointed Chairman of our Board. Mr. Jones currently serves as a partner of SAIL Venture Partners, L.P., a position which he has held since 2003. Mr. Jones also served as Chairman and Chief Executive Officer of Dartron, Inc., a computer accessories manufacturer. From 1985 to 1997, Mr. Jones was a general partner of InterVen Partners, a venture capital firm with offices in Southern California and Portland, Oregon. From 1979 to 1985, Mr. Jones was President and Chief Executive Officer of First Interstate Capital, Inc., the venture capital affiliate of First Interstate Bancorp. He has served on several boards of public and private companies and has acted as Chairman of Birtcher Medical Systems, Inc., a public company, and Chairman of the Audit Committee for Birtcher Medical Systems, Inc from 1992 to 1994 and Triquint Semiconductor, Inc. from 1993 to 1995. From 2005 to 2008, he was a Director of Earthanol, Inc., and from October 2009 to July 2011, he has served as a director of M2 Renewables, Inc. where he is currently the Chief Financial Officer. Mr. Jones is a graduate of Dartmouth College and holds Masters of Business Administration and law degrees from the University of Southern California. Mr. Jones is the longest-serving member on our board and adds substantial expertise from his venture capital finance background and his executive experience. His experience provides us with valuable insight on financing and operational strategies and corporate governance issues. Mr. Jones devotes such portion of his time to his role as a director of CNS as is required to properly fulfill his duties in that role.

George Carpenter, Director, President and Chief Executive Officer

George Carpenter joined our board of directors as Chairman on April 10, 2009 and served as Chairman until April 29, 2011. Mr. Carpenter has been serving as our Chief Executive Officer since April 10, 2009, served as our President from October 1, 2007 until April 10, 2009 and was reappointed our President on April 29, 2011. As President until 2009, Mr. Carpenter's primary responsibility involved developing strategy and commercializing our rEEG technology. From 2002 until he joined CNS in October 2007, Mr. Carpenter was the President & CEO of WorkWell Systems, Inc., a national physical medicine firm that manages occupational health programs for Fortune 500 employers. Prior to his position at WorkWell Systems, Mr. Carpenter founded and served as Chairman and CEO of Core, Inc., a company focused on integrated disability management and work-force analytics. He served in those positions from 1990 until Core was acquired by Assurant, Inc. in 2001. From 1984 to 1990, Mr. Carpenter was a Vice President of Operations with Baxter Healthcare, served as a Director of Business Development and as a strategic partner for Baxter's alternate site businesses. Mr. Carpenter began his career at Inland Steel where he served as a Senior Systems Consultant in manufacturing process control. Mr. Carpenter holds an MBA in Finance from the University of Chicago and a BA with Distinction in International Policy & Law from Dartmouth College. The Board selected Mr. Carpenter to serve as a director because of his extensive experience as chief executive officer for several companies and his service in a variety of leadership positions in the areas of fund raising, business development and building a management team. Mr. Carpenter provides critical insight into the areas of organizational and operational management. Mr. Carpenter works full-time for CNS.

John Pappajohn, Director

John Pappajohn joined our board of directors on August 26, 2009. Since 1969, Mr. Pappajohn has been the President and sole owner of Pappajohn Capital Resources, a venture capital firm, and President and sole owner of Equity Dynamics, Inc., a financial consulting firm, both located in Des Moines, Iowa. He serves as a director on the boards of the following public companies: American CareSource Holdings, Inc., Dallas, TX since 1994 and ConMed Healthcare Management, Inc., Hanover, MD, since 2005, and he has served on the boards of public companies PharmAthene, Inc., Spectrascience, Inc., CareGuide, Inc. and Allion Healthcare, Inc. within the past five years. Mr. Pappajohn was chosen to serve as a director of our company because of his unparalleled experience serving as a director of more than 40 companies and the substantial insight he has gained into the life sciences and healthcare industries by actively investing in the industries for more than 40 years, and by founding and supporting several public healthcare companies. Mr. Pappajohn devotes such portion of his time to his role as a director of CNS as is required to properly fulfill his duties in that role.

Henry T. Harbin, M.D., Director

Henry Harbin, M.D. joined our board of directors on October 17, 2007. Since 2004, Dr. Harbin has worked as an independent consultant providing health care consulting services to a number of private and public organizations. Dr. Harbin is a psychiatrist with over 30 years of experience in the behavioral health field. He has held a number of senior positions in both public and private health care organizations. He worked for 10 years in the public mental health system in Maryland serving as director of the state mental health authority for three of those years. He has been CEO of two national behavioral healthcare companies — Greenspring Health Services and Magellan Health Services ("Magellan"). Dr. Harbin was Executive Chairman of the Board of Magellan from October 2002 to January 2004, Chairman from March 2001 to September 2002, Chief Executive Officer from 1998 to September 2001 and Executive Vice President from 1995 to 1998. In March 2003, Magellan and subsidiaries filed voluntary petitions for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Magellan's Plan of Reorganization was confirmed by order of the bankruptcy court on October 8, 2003, and Magellan and its subsidiaries emerged from the protection of their Chapter 11 proceedings in January 2004. At the time he was CEO of Magellan, it was the largest managed behavioral healthcare company managing the mental health and substance abuse benefits of approximately 70 million Americans including persons who were insured by private employers, Medicaid and Medicare. In 2002 and 2003, he served on the President's New Freedom Commission on Mental Health. As a part of the Commission he was chair of the subcommittee for the Interface between Mental Health and General Medicine. In 2005, he served as co-chair of the National Business Group on Health's work group that produced the Employer's Guide to Behavioral Health Services in December 2005. The Board selected Dr. Harbin to serve as a director because of his over 30 years of experience in the behavioral health field, which includes an impressive service record in the area of public sector health. His experience provides significant vision to a company in the mental healthcare industry. Dr. Harbin devotes such portion of his time to his role as a director of CNS as is required to properly fulfill his duties in that role.

George J. Kallins, M.D., Director

George Kallins, M.D. joined our board of directors on July 5, 2010. Dr. Kallins has served as President and CEO of ACP Management, his family's property management, development and real estate investment firm since 2004; however, he also continues to practice medicine in his specialty field of Obstetrics and Gynecology. He founded and was the CEO and President of Mission Obstetrics and Gynecology which was a 14 physician strong medical group and was also the founder and CEO of Medical Management Resources, a medical management and billing company. Dr Kallins served as the Medical Director of the USC Center for Women's Mood Disorders while on the faculty at the University of Southern California School of Medicine in 1999 through 2000. During this time he also authored a book titled, *Five Steps to a PMS Free Life*, which includes issues dealing with mood disorders impacting some women. He published this book through The Village Healer Press which he founded. Dr. Kallins received his B.Sc majoring in Psychobiology from the University of Southern California and his medical degree from the Rush School of Medicine in Chicago, IL. He returned to the University of Southern California to do his residency in Obstetrics and Gynecology. Dr. Kallins also has an MBA from Pepperdine University. The Board selected Dr. Kallins to serve as a director because of his 20-plus years of experience in primary medicine, specifically in the field of mood disorders, and his business accomplishments. His experience provides us insight into the field of primary medical care and our relationship to the prescribing of psychotropic drugs. We believe the prescription of psychotropic drugs is an area of medicine which could benefit from our rEEG technology. Dr. Kallins devotes such portion of his time to his role as a director of CNS as is required to properly fulfill his duties in that role.

Zachary McAdoo, Director

Zachary McAdoo joined our board of directors on November 21, 2011. Mr. McAdoo is the president of McAdoo Capital, Inc., a New York based investment firm founded in 2009 that focuses on investing in small and micro cap public companies. McAdoo Capital, Inc. is the investment manager to the Zanett Opportunity Fund, Ltd., a Bermuda based company. From 2005 through 2008, Mr. McAdoo was an analyst and portfolio manager with the The Zanett Group, a New York based family office. Prior to joining The Zanett Group, Mr. McAdoo worked for seven years for two other small cap investment firms. Mr. McAdoo graduated from McGill University in 1995 with a Bachelor of Arts degree in Psychology. In 2004 he became a CFA charterholder. In addition to his experience investing in healthcare services, diagnostics and medical device companies, Mr. McAdoo brings a direct-to-consumer marketing perspective to the board through his experience of investing in companies across many industries that use direct marketing methods.

Paul Buck, Chief Financial Officer and Secretary

Effective February 18, 2010, we appointed Paul Buck to the position of Chief Financial Officer. Mr. Buck has been working with us as an independent consultant since December 2008, assisting management with finance and accounting matters as well as our filings with the Securities and Exchange Commission. Prior to joining us, Mr. Buck worked as an independent consultant since 2004 and has broad experience with a wide variety of public companies. His projects have included forensic accounting, restatements, acquisitions, interim management and system implementations. Mr. Buck, a Swiss National, was raised in Southern Africa and holds a Bachelor of Science degree in Chemistry and a Bachelor of Commerce degree both from the University of Cape Town, South Africa. He started his career with Touche Ross & Co. in Cape Town and qualified as a Chartered Accountant. In 1985, Mr. Buck joined the Los Angeles office of Touche Ross & Co. where he was an audit manager. In 1991 he joined the American Red Cross Biomedical Services as the CFO of the Southern Californian Region. After five years with the organization, he returned to Deloitte & Touche as a manager in the Solutions Consulting Group. In 1998, Mr. Buck was recruited back to the American Red Cross Biomedical Services as CFO and became the Director of Operations for the Southern California Region until 2003. Mr. Buck works full-time for CNS.

Daniel Hoffman, Chief Medical Officer

Dr. Hoffman became our Chief Medical Officer on January 15, 2008, upon our acquisition of Neuro-Therapy Clinic, Inc., which at the time of the acquisition was our largest customer and which was owned by Dr. Hoffman. Dr. Hoffman also served as our President from April 2009 to April 2011. Dr. Hoffman had served as the Medical Director of Neuro-Therapy Clinic, Inc. since 1993, and as President of Neuro-Therapy Clinic, Inc. since he founded it in the 1980's. Dr. Hoffman is a Neuropsychiatrist with over 25 years experience treating general psychiatric conditions such as depression, bipolar disorder and anxiety. He provides the newest advances in diagnosing and treating attentional and learning problems in children and adults. Dr. Hoffman has authored over 50 professional articles, textbook chapters, poster presentations and letters to the editors on various aspects of neuropsychiatry, Quantitative EEG, LORETA, Referenced EEG, advances in medication management, national position papers and standards, Mild Traumatic Brain Injury, neurocognitive effects of Silicone Toxicity, sexual dysfunction and other various topics. Dr. Hoffman has given over 58 major presentations and seminars, including Grand Rounds at Universities and Hospitals, workshops and presentations at national society meetings (such as American Psychiatric Association and American Neuropsychiatric Association), national CME conferences, insurance companies, national professional associations, panel member discussant, and presenter of poster sessions. He has also lectured internationally as part of a consortium advancing Quantitative EEG in Psychiatry and done research with the major national academic institutions on the use of Referenced EEG to help guide treatment choices. Dr. Hoffman has a Bachelor of Science in Psychology from the University of Michigan, an MD from Wayne State University School of Medicine and conducted his Residency in Psychiatry at the University of Colorado Health Sciences Center. Dr. Hoffman works full-time for CNS.

Michael Darkoch, Executive Vice President and Chief Marketing Officer

Michael Darkoch became our Executive Vice President and Chief Marketing Officer on July 6, 2010. Prior to joining us, Mr. Darkoch worked as Vice President of Network Management for MedImpact Health Systems in San Diego since 2004, where he managed new business development for self-insured clients and worked in product development. At our company, Mr. Darkoch is responsible for managing and implementing various business activities associated with the launch and the commercialization of rEEG. This includes responsibility for business development, revenue generation, marketing, network management and performance and patient management. He is also responsible for managing sales and product placement across the various market channels we address, including commercial payers, government agencies, employers and direct to consumer. Mr. Darkoch's experience in healthcare spans over 30 years. He has significant business development and executive management experience in the pharmaceutical distribution field. He started his engineering and management career with Texas Instruments and Mobil Chemical Company. He moved into healthcare in 1974 and joined Baxter International. He progressed through product development, logistics and distribution, business development and general manager over several business units. He pioneered business initiatives into home infusion, hospital systems, and alternate site delivery systems. He was responsible for client acquisition and renewal on the original Baxter team that developed Mail Order prescription fulfillment. This business unit was eventually spun-off and became Caremark Rx. Mr. Darkoch managed Caremark Rx sales and client growth. He left Caremark Rx in the late 1990's and managed business development and client management for two disability management companies — CORE, Inc. and WorkWell Health Systems. Mr. Darkoch holds a Bachelor of Science of Industrial Engineering degree from Lehigh University and Master of Science in Business from Southern Methodist University. Mr. Darkoch works full-time for CNS.

Board Composition and Committees and Director Independence

Our board of directors currently consists of six members: David Jones, George Carpenter, Henry Harbin, John Pappajohn, George Kallins and Zachary McAdoo. With the exception of George Kallins, who was appointed to our board on July 5, 2010, and Zachary McAdoo, who was appointed to our board on November 21, 2011, each director was elected at our annual meeting of shareholders held on April 27, 2010. Each of our directors will serve until our next annual meeting and until his successor is duly elected and qualified.

We are not a "listed company" under SEC rules and are therefore not subject to the rules of stock exchanges that require listed companies to maintain a board containing a majority of independent directors and board committees comprised solely of independent directors. Our board of directors has, however, determined that Henry Harbin, George Kallins and Zachary McAdoo are "independent" directors as that term is defined in Section 5605 of the Equity Rules of the NASDAQ Stock Market (the "Nasdaq Listing Rules").

Board Committees

Our board of directors established an audit committee and a compensation committee at a board meeting held on March 3, 2010. Each committee has its own charter, which is available on our website at www.cnsresponse.com. Information contained on our website is not incorporated herein by reference. Each of the board committees has the composition and responsibilities described below.

Audit Committee

We have a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act of 1934, as amended (the "Exchange Act"). The members of our audit committee are Zachary McAdoo (Chairman) and George Kallins. Each of these committee members is "independent" within the meaning of Rule 10A-3 under the Exchange Act and the Nasdaq Listing Rules. Our board has determined that Mr. McAdoo serves as the "audit committee financial expert," as such term is defined in Item 407(d)(5) of Regulation S-K. In his roles as president of, and analyst and portfolio manager in, various investment firms, Mr. McAdoo has gained over 10 years of experience analyzing the financial statements of public companies, assessing the use of accounting methods employed by those companies and the financial acumen of management.

The audit committee oversees our accounting and financial reporting processes and oversees the audit of our financial statements and the effectiveness of our internal control over financial reporting. The specific functions of this committee include:

- selecting and recommending to our board of directors the appointment of an independent registered public accounting firm and overseeing the engagement of such firm;
- approving the fees to be paid to the independent registered public accounting firm;
- helping to ensure the independence of our independent registered public accounting firm;
- overseeing the integrity of our financial statements;
- preparing an audit committee report as required by the SEC to be included in our annual proxy statement;
- reviewing major changes to our auditing and accounting principles and practices as suggested by our company's independent registered public accounting firm, internal auditors (if any) or management;

- reviewing and approving all related party transactions; and
- overseeing our compliance with legal and regulatory requirements.

Compensation Committee

The members of our compensation committee are John Pappajohn (Chairman), David Jones and Henry Harbin. Dr. Harbin is "independent" within the meaning of the Nasdaq Listing Rules. In addition, each member of our compensation committee qualifies as a "non-employee director" under Rule 16b-3 of the Exchange Act. The Company intends to reconstitute its compensation committee such that it consists solely of "independent" directors. Our compensation committee assists the board of directors in the discharge of its responsibilities relating to the compensation of the board of directors and our executive officers.

The committee's compensation-related responsibilities include:

- assisting our board of directors in developing and evaluating potential candidates for executive positions and overseeing the development of executive succession plans;
- reviewing and approving on an annual basis the corporate goals and objectives with respect to compensation for our chief executive officer;
- reviewing, approving and recommending to our board of directors on an annual basis the evaluation process and compensation structure for our other executive officers;
- providing oversight of management's decisions concerning the performance and compensation of other company officers, employees, consultants and advisors;
- reviewing our incentive compensation and other stock-based plans and recommending changes in such plans to our board of directors as needed, and exercising all the authority of our board of directors with respect to the administration of such plans;
- reviewing and recommending to our board of directors the compensation of independent directors, including incentive and equity-based compensation; and
- selecting, retaining and terminating such compensation consultants, outside counsel and other advisors as it deems necessary or appropriate.

Corporate Governance and Nominating Functions

The Company does not currently have a standing corporate governance and nominating committee. Instead, the functions of such committee are performed by the members of the board qualifying as "independent" for purposes of the Nasdaq Listing Rules.

Code of Ethics.

Our board of directors has adopted a Code of Ethical Conduct (the "Code of Conduct") which constitutes a "code of ethics" as defined by applicable SEC rules and a "code of conduct" as defined by applicable NASDAQ rules. We require all employees, directors and officers, including our principal executive officer and principal financial officer to adhere to the Code of Conduct in addressing legal and ethical issues encountered in conducting their work. The Code of Conduct requires that these individuals avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in our best interest. The Code of Conduct contains additional provisions that apply specifically to our Chief Executive Officer, Chief Financial Officer and other finance department personnel with respect to full and accurate reporting. The Code of Conduct is available on our website at www.cnsresponse.com and is also filed as an exhibit to our Annual Report on Form 10-K. The Company will post any amendments to the Code of Conduct, as well as any waivers that are required to be disclosed by the rules of the SEC on such website.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and the holders of more than 10% of our common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our equity securities. Based solely on our review of the copies of the forms received by us and written representations from certain reporting persons that they have complied with the relevant filing requirements, we believe that, during the year ended September 30, 2011, all of our executive officers, directors and the holders of 10% or more of our common stock complied with all Section 16(a) filing requirements, except for the following: one Statement of Change in Beneficial Ownership on Form 4, reporting three related transactions filed late by George Kallins.

ITEM 11. Executive Compensation

Compensation Structure

Compensation Philosophy

Generally, we compensate our executive officers with a compensation package that is designed to drive company performance to maximize shareholder value while meeting our needs and the needs of our executives. The following are objectives we consider:

- Alignment - to align the interests of executives and shareholders through equity-based compensation awards;
- Retention - to attract, retain and motivate highly qualified, high performing executives to lead our growth and success; and
- Performance - to provide, when appropriate, compensation that is dependent upon the executive's achievements and the company's performance.

In order to achieve the above objectives, our executive compensation philosophy is guided by the following principles:

- Rewards under incentive plans are based upon our short-term and longer-term financial results and increasing shareholder value;
- Executive pay is set at sufficiently competitive levels to attract, retain and motivate highly talented individuals who are necessary for us to strive to achieve our goals, objectives and overall financial success;
- Compensation of an executive is based on such individual's role, responsibilities, performance and experience; and
- Annual performance of our company and the executive are taken into account in determining annual bonuses with the goal of fostering a pay-for-performance culture.

Compensation Elements

We compensate our executives through a variety of components, which may include a base salary, annual performance based incentive bonuses, equity incentives, and benefits and perquisites, in order to provide our executives with a competitive overall compensation package. The mix and value of these components are impacted by a variety of factors, such as responsibility level, individual negotiations and performance and market practice. The purpose and key characteristics for each component are described below.

Base Salary

Base salary provides executives with a steady income stream and is based upon the executive's level of responsibility, experience, individual performance and contributions to our overall success, as well as negotiations between the company and such executive officer. Competitive base salaries, in conjunction with other pay components, enable us to attract and retain talented executives. The Board typically sets base salaries for our executives at levels that it deems to be competitive, with input from our Chief Executive Officer.

Annual Incentive Bonuses

Annual incentive bonuses are a variable performance-based component of compensation. The primary objective of an annual incentive bonus is to reward executives for achieving corporate and individual goals and to align a portion of total pay opportunities for executives to the attainment of our company's performance goals. Annual incentive awards, when provided, act as a means to recognize the contribution of our executive officers to our overall financial, operational and strategic success.

Equity Incentives

Equity incentives are intended to align executive and shareholder interests by linking a portion of executive pay to long-term shareholder value creation and financial success over a multi-year period. Equity incentives may also be provided to our executives to attract and enhance the retention of executives and to facilitate stock ownership by our executives. The Board considers individual and company performance when determining long-term incentive opportunities.

Health & Welfare Benefits

The executive officers participate in health and welfare, and paid time-off benefits which we believe are competitive in the marketplace. Health and welfare and paid time-off benefits help ensure that we have a productive and focused workforce.

Severance and Change of Control Arrangements

We do not have a formal plan for severance or separation pay for our employees, but we typically include a severance provision in the employment agreements of our executive officers that have written employment agreements with us. Generally, such provisions are triggered in the event of involuntary termination of the executive without cause or in the event of a change in control. Please see the description of our employment agreements with each of George Carpenter, Daniel Hoffman, Michael Darkoch and Paul Buck below for further information.

Other Benefits

In order to attract and retain highly qualified executives, we may provide our executive officers with automobile allowances, consistent with current market practices.

Accounting and Tax Considerations

We consider the accounting and tax implications of all aspects of our executive compensation strategy and, so long as doing so does not conflict with our general performance objectives described above, we strive to achieve the most favorable accounting and tax treatment possible to the company and our executive officers.

Process for Setting Executive Compensation; Factors Considered

When making pay determinations for named executive officers, the Board considers a variety of factors including, among others: (1) actual company performance as compared to pre-established goals, (2) individual executive performance and expected contribution to our future success, (3) changes in economic conditions and the external marketplace, (4) prior years' bonuses and long-term incentive awards, and (5) in the case of executive officers, other than Chief Executive Officer, the recommendation of our Chief Executive Officer, and in the case of our Chief Executive Officer, his negotiations with our Board. No specific weighing is assigned to these factors nor are particular targets set for any particular factor. Ultimately, the Board uses its judgment and discretion when determining how much to pay our executive officers and sets the pay for such executives by element (including cash versus non-cash compensation) and in the aggregate, at levels that it believes are competitive and necessary to attract and retain talented executives capable of achieving the Company's long-term objectives.

Summary Compensation Table

The following table provides disclosure concerning all compensation paid for services to us in all capacities for our fiscal years ending September 30, 2011 and 2010 provided by (i) each person serving as our principal executive officer ("PEO") or acting in a similar capacity during our fiscal year ended September 30, 2011, (ii) our two most highly compensated executive officers other than our PEO who were serving as executive officers on September 30, 2011 and whose total compensation exceeded $100,000 (collectively with the PEO referred to as the "named executive officers" in this Executive Compensation section); and (iii) our Chief Financial Officer.

Name and Principal Position	Fiscal Year Ended September 30,	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
George Carpenter (Chief Executive	2011	304,114(9)	-	-	21,828(3)	325,942
Officer, President and Director)	2010	213,700(9)	-	2,167,300(1)(5)	20,800(3)	2,401,800
Daniel Hoffman (Chief	2011	235,500	-	-	27,728(4)	263,228
Medical Officer)	2010	150,000	-	270,900(1)(6)	26,000(4)	465,900
Paul Buck (Chief Financial Officer)	2011	188,500(10)	-	-	22,895(3)	211,395
	2010	127,000(10)	-	243,800(1)(7)	94,900(11)	465,700
Michael Darkoch (Executive Vice	2011	216,666(11)	-	-	18,320(3)	234,986
President and Chief Marketing Officer)	2010	43,334(11)	-	180,000(2)(8)	6,100(3)	229,434

(1) These options were granted on March 3, 2010. The amount reflected in the table represents the aggregate grant-date fair value of options computed in accordance with FASB ASC Topic 718 (formerly FAS 123R). We estimate the fair value of each option on the grant date using the Black-Scholes model with the following assumptions: dividend yield 0%; risk-free interest rate 3.62%; expected volatility 215% and expected life of the option 5 years.

(2) These options were granted on July 6, 2010. The amount reflected in the table represents the aggregate grant-date fair value of options computed in accordance with FASB ASC Topic 718 (formerly FAS 123R). We estimate the fair value of each option on the grant date using the Black-Scholes model with the following assumptions: dividend yield 0%; risk-free interest rate 1.81%; expected volatility 516% and expected life of the option 5 years.

(3) Relates to healthcare insurance premiums paid on behalf of executive officers by us.

(4) Relates to healthcare insurance premiums for the year ended September 30, 2011 of $22,028 and automobile expenses of $5,700 paid on behalf of Dr. Hoffman by us. For the year ended September 30, 2010, healthcare insurance premiums were $22,600 and automobile expenses were $3,400.

(5) The aggregate number of option awards outstanding for Mr. Carpenter at September 30, 2011 was 4,000,000 from the March 3, 2010 grant and 968,875 from the October 1, 2007 grant.

(6) The aggregate number of option awards outstanding for Dr. Hoffman at September 30, 2011 was 500,000 shares from the March 3, 2010 grant and 814,062 and 119,013 shares from grants on August 8, 2007 and August 11, 2006 respectively.

(7) The aggregate number of option awards outstanding for Mr. Buck at September 30, 2011 was 450,000 from the March 3, 2010 grant.

(8) The aggregate number of option awards outstanding for Mr. Darkoch at September 30, 2011 was 450,000 from the July 6, 2010 grant.

(9) $33,700 of Mr. Carpenter's salary was accrued in fiscal 2010 and payment deferred and paid in fiscal 2011.

(10) For 2011 $19,500 of Mr. Buck's salary has been accrued and payment deferred. For 2010 $26,000 of Mr. Buck's salary was accrued and payment remains deferred. All other compensation for the year ended September 30, 2010, is made up of 1) $8,500 healthcare insurance premiums paid on his behalf by us; 2) Consulting fees of $86,400 paid to Mr. Buck prior to joining us as Chief Financial Offer.

(11) $8,666 of Mr. Darkoch's salary was accrued in fiscal 2010 and payment deferred and paid in fiscal 2011.

Grants of Plan Based Awards in the Fiscal Years Ending September 30, 2010 and September 30, 2011

No option grants were awarded to executive officers for the fiscal year ending September 30, 2011. Option grants awarded during fiscal year ending September 30, 2010 under our 2006 Stock Incentive Plan as amended and restated, which is the only plan pursuant to which awards can be granted. These options to acquire shares of common stock granted to management were as follows:

(1) On March 3, 2010, options were granted to Mr. Carpenter in the amount of 4,000,000 shares, Dr. Hoffman in the amount of 500,000 shares, and Mr. Buck in the amount of 450,000 shares.

(2) On July 6, 2010, options were granted to Mr. Darkoch in the amount of 450,000 shares.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards

Since we had limited cash and cash equivalent resources as of September 30, 2011 and 2010, we elected to preserve our cash and did not pay any bonuses to our executive officers during our fiscal years ended September 30, 2011 and 2010.

Please refer to the footnotes to the Summary Compensation Table for a description of the components of All Other Compensation received by the named executive officers.

The following is a summary of each employment agreement that we have entered into with respect to our named executive officers, which summary includes, where applicable, a description of all payments we are required to make to such named executive officers at, following or in connection with the resignation, retirement or other termination of such named executive officers, or a change in control of our company or a change in the responsibilities of such named executive officers following a change in control.

Employment Agreements

George Carpenter

On October 1, 2007, we entered into an employment agreement with George Carpenter pursuant to which Mr. Carpenter began serving as our President. During the period of his employment, Mr. Carpenter will receive a base salary of no less than $180,000 per annum, which is subject to upward adjustment at the discretion of the Chief Executive Officer or our Board of Directors. On March 3, 2010, the Board of Directors increased the annual base salary of Mr. Carpenter to $270,000, with the increase in salary having retroactive effect to January 1, 2010. In addition, pursuant to the terms of his initial employment agreement, on October 1, 2007, Mr. Carpenter was granted an option to purchase 968,875 shares of our common stock at an exercise price of $0.89 per share pursuant to our 2006 Stock Incentive Plan. In the event of a change of control transaction, a portion of Mr. Carpenter's unvested options equal to the number of unvested options at the date of the corporate transaction multiplied by the ratio of the time elapsed between October 1, 2008 and the date of the corporate transaction over the vesting period (48 months) will automatically accelerate, and become fully vested. Mr. Carpenter is entitled to four weeks' vacation per annum, health and dental insurance coverage for himself and his dependents, and other fringe benefits that we offer our employees from time to time.

Mr. Carpenter's employment is on an "at-will" basis, and Mr. Carpenter may terminate his employment with us for any reason or for no reason. Similarly, we may terminate Mr. Carpenter's employment with or without cause. If we terminate Mr. Carpenter's employment without cause or Mr. Carpenter involuntarily terminates his employment with us (an involuntary termination includes changes, without Mr. Carpenter's consent or pursuant to a corporate transaction, in Mr. Carpenter's title or responsibilities so that he is no longer the President of our company), Mr. Carpenter shall be eligible to receive as severance his salary and benefits for a period equal to six months payable in one lump sum upon termination. If Mr. Carpenter is terminated by us for cause, or if Mr. Carpenter voluntarily terminates his employment, he will not be entitled to any severance.

As of April 10, 2009, Mr. Carpenter was named Chief Executive Officer and a director of the Company and, on April 29, 2011, became our President again. This was a position he had held from the time that he had joined the Company in October 2007 through to April 10, 2009 when he was named Chief Executive Officer and Chairman of the Board.

Daniel Hoffman

On January 11, 2008, we entered into an employment agreement with Daniel Hoffman pursuant to which Dr. Hoffman began serving as our Chief Medical Officer effective January 15, 2008. During the period of his employment, Dr. Hoffman will receive a base salary of $150,000 per annum, which is subject to upward adjustment and was increased to an annual base salary of $264,000 effective January 2011. Dr. Hoffman will also have the opportunity to receive bonus compensation, if and when approved by our Board of Directors. Dr. Hoffman's employment is on an "at-will" basis, and Dr. Hoffman may terminate his employment with us for any reason or for no reason. Similarly, we may terminate Dr. Hoffman's employment with or without cause. If we terminate Dr. Hoffman's employment without cause or Dr. Hoffman involuntarily terminates his employment with us (an involuntary termination includes changes, without Dr. Hoffman's consent or pursuant to a corporate transaction, in Dr. Hoffman's title or responsibilities so that he is no longer the Chief Medical Officer of our company), Dr. Hoffman will be eligible to receive as severance his salary and benefits for a period equal to six months payable in one lump sum upon termination. If Dr. Hoffman is terminated by us for cause, or if Dr. Hoffman voluntarily terminates his employment, he will not be entitled to any severance. Dr. Hoffman is entitled to four weeks' vacation per annum, health and dental insurance coverage for himself and his dependents, and other fringe benefits that we offer our employees from time to time. In the event of a change of control transaction, a portion of Dr. Hoffman's unvested options equal to the number of unvested options at the date of the corporate transaction multiplied by the ratio of the time elapsed between option grant date and the date of the corporate transaction over the vesting period (42 months) will automatically accelerate, and become fully vested.

In addition to being the Chief Medical Officer, Dr. Hoffman served as President of the Company from April 10, 2009 to April 29, 2011.

Paul Buck

On February 18, 2010, we entered into an employment agreement with Paul Buck pursuant to which Mr. Buck began serving as our Chief Financial Officer on an "at will" basis and will be paid a salary of no less than $208,000 per annum, which is subject to upward adjustment at the discretion of the Chief Executive Officer or the Board of Directors of our company. Pursuant to his employment agreement, Mr. Buck also received an option to purchase 450,000 shares of our common stock on March 3, 2010, which options vest in 48 equal installments commencing on March 3, 2010. The options have an exercise price of $0.55 per share and were granted under our 2006 Stock Incentive Plan. In the event of a change of control transaction, a portion of Mr. Buck's unvested options equal to the number of unvested options at the date of the corporate transaction multiplied by the ratio of the time elapsed between March 3, 2010 and the date of the corporate transaction over the vesting period (48 months) will automatically accelerate, and become fully vested. In the event of a change of control transaction, a portion of Mr. Buck's unvested options equal to the number of unvested options at the date of the corporate transaction multiplied by the ratio of the time elapsed between option grant date and the date of the corporate transaction over the vesting period (48 months) will automatically accelerate, and become fully vested. Mr. Buck is entitled to four weeks' vacation per annum, health and dental insurance coverage for himself and his dependents, and other fringe benefits that we offer our employees from time to time. As Mr. Buck's employment is on an "at-will" basis, he may terminate his employment with us for any reason or for no reason. Similarly, we may terminate Mr. Buck's employment with or without cause. If we terminate Mr. Buck's employment without cause or Mr. Buck involuntarily terminates his employment with us, Mr. Buck shall be eligible to receive as severance his salary and benefits for a period equal to six months payable in one lump sum upon termination. If Mr. Buck is terminated by us for cause, or if Mr. Buck voluntarily terminates his employment, he will not be entitled to any severance.

Michael Darkoch

On July 6, 2010, we entered into an employment agreement with Michael Darkoch pursuant to which Mr. Darkoch began serving as our Executive Vice President and Chief Marketing Officer on an "at will" basis and will be paid a salary of no less than $208,000 per annum, which is subject to upward adjustment at the discretion of the Chief Executive Officer or the Board of Directors of our company. Pursuant to his employment agreement, Mr. Darkoch also received an option to purchase 450,000 shares of our common stock on July 6, 2010 at an exercise price of $0.40 per share, which options vest in 48 equal installments commencing on July 6, 2010. In the event of a change of control transaction, a portion of Mr. Darkoch's unvested options equal to the number of unvested options at the date of the corporate transaction multiplied by the ratio of the time elapsed between the option grant date and the date of the corporate transaction over the vesting period (48 months) will automatically accelerate, and become fully vested. Mr. Darkoch is entitled to four weeks' vacation per annum, health and dental insurance coverage for himself and his dependents, and other fringe benefits that we offer our employees from time to time. As Mr. Darkoch's employment is on an "at-will" basis, he may terminate his employment with us for any reason or for no reason. Similarly, we may terminate Mr. Darkoch's employment with or without cause. If we terminate Mr. Darkoch's employment after January 2, 2011, without cause or Mr. Darkoch involuntarily terminates his employment after January 2, 2011, with us, Mr. Darkoch shall be eligible to receive as severance his salary and benefits for a period equal to six months payable in one lump sum upon termination. If Mr. Darkoch is terminated by us for cause, or if Mr. Darkoch voluntarily terminates his employment, he will not be entitled to any severance.

We have no other employment agreements with our executive officers.

2006 Stock Incentive Plan

On August 3, 2006, CNS California adopted the CNS California 2006 Stock Incentive Plan (the "2006 Plan"). On March 7, 2007, in connection with the closing of the merger transaction with CNS California, we assumed the CNS California stock option plan and all of the options granted under the plan at the same price and terms. Subsequently, we amended the 2006 Plan on March 3, 2010 to increase the number of shares of common stock reserved for issuance under the 2006 Plan from 10 million to 20 million shares and increased the limit on shares underlying awards granted within a calendar year to any eligible employee or director from 3 million to 4 million shares of common stock. The amendment was approved by our shareholders at the annual meeting held on April 27, 2010. The following is a summary of the 2006 Plan, as amended, which we use to provide equity compensation to employees, directors and consultants to our company.

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 nonstatutory stock options (NSO)), stock appreciation rights and stock unit grants and is administered by the board of directors. 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.

We have 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. We estimate the fair value of each option on the grant date using the Black-Scholes model. Stock-based compensation expense is recognized over the employees' or service provider's requisite service period, generally the vesting period of the award.

Originally, a total of 10 million shares of common stock were reserved for issuance under the 2006 Plan. The 2006 Plan also originally 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. On March 3, 2010, the Board of Directors approved an amendment to the 2006 Plan which increased the number of shares of common stock reserved for issuance under the 2006 Plan from 10 million to 20 million shares and increased the limit on shares underlying awards granted within a calendar year to any eligible employee or director from 3 million to 4 million shares of common 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 9,450,000 options to staff members, directors, advisors and consultants. 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.

On July 5, 2010, the Board of Directors further approved the grant of 800,000 options to staff members, directors and advisors with similar vesting periods as the March 3, 2010 options mentioned above.

On March 11, 2011, the Board of Directors further approved the grant of 475,000 options to staff members with similar vesting periods as the March 3, 2010 options mentioned above.

As of September 30, 2011, 2,124,740 options were exercised and there were 15,725,121 options and 183,937 restricted shares outstanding under the amended 2006 Plan, leaving 1,966,202 shares available for issuance pursuant to future awards.

For a description of the material terms of the stock options granted to our named executive officers during the fiscal years ended September 30, 2011 and September 30, 2010, please refer to the footnotes to the table under "- Outstanding Equity Awards at Fiscal Year-End 2010."

Outstanding Equity Awards at Fiscal Year-End 2011

The following table presents information regarding outstanding options held by our named executive officers as of September 30, 2011.

Name	**Number of Securities Underlying Unexercised Options (#)**		**Option Exercise Price ($)**	**Option Expiration Date**
	Exercisable	Unexercisable		
George Carpenter (1)	1,583,343	2,416,657	0.55	March 2, 2020
	968,875	0	0.89	October 1, 2017
Daniel Hoffman (2)	197,923	302,077	0.55	March 2, 2020
	933,075	0	1.09	August 8, 2017
	119,013	0	0.12	August 11, 2016
Paul Buck(3)	178,125	271,875	0.55	March 2, 2020
Michael Darkoch(4)	140,625	309,375	0.44	July 6, 2020

(1) On March 3, 2010, Mr. Carpenter was granted options to purchase 4,000,000 shares of common stock. The options are exercisable at $0.55 per share and vest equally over 48 months starting on March 3, 2010.

On October 1, 2007 Mr. Carpenter was granted options to purchase 968,875 shares of common stock. The options are exercisable at an exercise price of $0.89 and vest as follows: 121,109 shares vested immediately with the remaining 847,766 shares vesting equally over 42 months commencing April 30, 2008.

(2) On March 3, 2010, Dr Hoffman was granted options to purchase 500,000 shares of common stock. The options are exercisable at $0.55 per share and vest equally over 48 months starting on March 3, 2010.

On August 8, 2007, Dr. Hoffman was granted options to purchase 814,062 shares of our common stock. The options are exercisable at $1.09 per share and vest as follows: options to purchase 203,516 shares vested on March 8, 2008; options to purchase 593,600 shares vest in equal monthly installments of 16,960 shares over 35 months commencing on April 30, 2008; the remaining options to purchase 16,946 shares vested on March 31, 2011.

On August 11, 2006, Dr. Hoffman was granted an option to purchase 119,013 shares of common stock at an exercise price of $0.12 per share, which is now fully exercisable.

(3) On March 3, 2010, Mr. Buck was granted options to purchase 450,000 shares of common stock. The options are exercisable at $0.55 per share and vest equally over 48 months starting on March 3, 2010.

(4) On July 6, 2010, Mr. Darkoch was granted options to purchase 450,000 shares of common stock. The options are exercisable at $0.40 per share and vest equally over 48 months starting on July 6, 2010.

Director Compensation

During our fiscal year ended September 30, 2011, non-employee directors did not receive any cash or other compensation for their service on our board of directors or committees thereof. We do not pay management directors for board service in addition to their regular employee compensation. The full board of directors has the primary responsibility for reviewing and considering any revisions to director compensation. As described below, Dr. Harbin and Mr. Jones received compensation for consulting services provided to us during our fiscal year ending September 30, 2011.

Non-Employee Director Compensation

Name	Option Awards ($)	All Other Compensation ($)	Total ($)
Jerome Vaccaro M.D. (1)	-	-	-
Henry Harbin M.D. (2)	-	18,000	18,000
John Pappajohn (3)	-	-	-
David Jones (4)	-	15,000	15,000
George Kallins M.D.(5)	-	-	-

(1) On March 3, 2010, Dr. Vaccaro was granted 250,000 options having an exercise price of $0.55 for his services as a director. The options vest equally over 36 months starting on the date of grant. The aggregate number of option awards outstanding for Dr. Vaccaro at September 30, 2011 was 270,000. Dr. Vaccaro has resigned from our board of directors.

(2) On March 3, 2010 Dr. Harbin was granted 250,000 options for his services as a director and 400,000 options for consulting services pursuant to his March 26, 2010 Consulting Agreement described below. These options have an exercise price of $0.55 and vest equally over 36 months starting on the date of grant. All other compensation is comprised of the cash payment of $24,000 paid in January 2010 under Dr. Harbin's March 17, 2009 Consulting Agreement described below, plus $21,000 which have been accrued through September 30, 2010 on Dr. Harbin's March 26, 2010 Consulting Agreement. To date, no cash payment has been made on the March 26, 2010 agreement.

On April 15, 2008, we entered into a consulting agreement with Dr. Harbin, which expired on December 31, 2008 pursuant to which Dr. Harbin was paid an aggregate of $24,000 and was granted options to purchase 56,000 shares of our common stock at an exercise price of $0.96 per share, with options to purchase 14,000 shares vesting on the date of grant, options to purchase 37,328 shares vesting in eight equal monthly installments of 4,666 options commencing on April 30, 2008, and the remaining options to purchase 4,672 shares vesting on December 31, 2008.

On March 17, 2009, we entered into a consulting agreement with Dr. Harbin (the "March 17, 2009 Consulting Agreement"), which expired on December 31, 2009 pursuant to which Dr. Harbin was to be paid an aggregate of $24,000 as compensation for his consulting services. Dr. Harbin was paid the $24,000 due to him in January 2010. In addition, as further compensation, we granted Dr. Harbin options to purchase 56,000 shares of our common stock at an exercise price of $0.40 per share, with the options vesting in equal monthly installments over a twelve month period commencing on January 1, 2009. The options expire on March 17, 2019.

On March 26, 2010, we entered into a consulting agreement with Dr. Harbin (the "March 26, 2010 Consulting Agreement"), pursuant to which Dr. Harbin is to be paid an aggregate of $36,000 as compensation for his consulting services. As of September 30, 2010 we have an accrued liability of $21,000 for the nine months of the contract term to that date. Dr. Harbin has been paid $18,000 on this contract during fiscal year ended September 30, 2011. This agreement expired on December 31, 2010, and was renewed in January 1, 2011 for the first of its two automatic renewal options. As of September 30, 2011, we have accrued $45,000 on Dr. Harbin's contracts for calendar year 2010 and 2011 through September 30, 2011. In addition, as further compensation, we granted Dr. Harbin options to purchase 400,000 shares of our common stock at an exercise price of $0.55 per share, with the options vesting in 36 equal monthly installments commencing on March 3, 2010. The options expire on March 2, 2020.

The aggregate number of option awards outstanding for Dr. Harbin at September 30, 2011 was 806,000.

(3) On March 3, 2010, Mr. Pappajohn was granted 250,000 options having an exercise price of $0.55 for his services as a director. The options vest equally over 36 months starting on the date of grant. The aggregate number of option awards outstanding for Mr. Pappajohn at September 30, 2011 was 250,000.

(4) On March 3, 2010, Mr. Jones was granted 250,000 options having an exercise price of $0.55 for his services as a director. The options vest equally over 36 months starting on the date of grant. The aggregate number of option awards outstanding for Mr. Jones at September 30, 2011 was 250,000. Mr. Jones has assigned his options to SAIL Venture Partners, L.P. Mr. Jones was appointed Chairman of our Board on April 29, 2011. On May 27, 2011, the Board approved the payment of a consulting fee to Mr. Jones over the period of the subsequent two months at a rate of $7,500 per month for services to be rendered by Mr. Jones in consulting with the Company in its fund raising activities.

(5) On July 5, 2010, Dr. Kallins was granted 250,000 options having an exercise price of $0.40 for his services as a director. The options vest equally over 36 months starting on the date of grant. The aggregate number of option awards outstanding for Dr. Kallins at September 30, 2011 was 250,000.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table presents information regarding the beneficial ownership of our common stock as of December 15, 2011 of:

· each of the executive officers;

· each of our directors;

· all of our directors and executive officers as a group; and

· each stockholder known by us to be the beneficial owner of more than 5% of our common stock.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of our common stock subject to options, warrants and convertible promissory notes issued by us (and convertible interest on those notes) that are currently exercisable or convertible, or exercisable or convertible within sixty days of December 15, 2011 are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible promissory notes, as applicable, for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated in the footnotes to the table, the information presented in this table is based on 56,218,431 shares of our common stock outstanding on December 15, 2011. Unless otherwise indicated, the address of each of the executive officers and directors and 5% or more stockholders named below is c/o CNS Response, Inc., 85 Enterprise, Suite 410, Aliso Viejo, CA 92656.

	Number of Shares Beneficially Owned Prior to Offering	
Name of Beneficial Owner	**Number**	**Percentage of Shares Outstanding**
Executive Officers and Directors:		
George Carpenter (1) Director, President and Chief Executive Officer	3,408,883	5.8 %
Paul Buck (2) Chief Financial Officer and Secretary	1,390,375	2.4 %
Dr. Daniel Hoffman (3) Chief Medical Officer	1,293,628	2.3 %
Michael Darkoch (4) Executive Vice President and Chief Marketing Officer	187,500	*
David B. Jones(5) Chairman of the Board	29,138,166	36.9 %
Dr. Henry Harbin (7) Director	600,174	1.1 %
John Pappajohn (8) Director	35,098,139	42.7 %
Dr. George Kallins(9) Director	11,476,072	17.0 %
Zachary McAdoo (10)	5,059,375	8.3 %
Directors and officers as a group (8 persons) (11)	87,652,312	68.7 %
Non-Director 5%+ Stockholders:		
Leonard Brandt (12)	10,480,336	18.1 %
SAIL Venture Partners LP (5)	29,138,166	36.9 %
Andy Sassine (13)	11,290,000	16.7 %
Highland Long/Short Healthcare Fund and Cummings Bay Healthcare Fund (Michael Gregory)(14)	15,914,032	22.3 %

* Less than 1%

(1) Consists of (a) 360,000 shares of common stock, (b) 80,000 shares of common stock issuable upon the exercise of vested and exercisable warrants and (c) 2,968,883 shares of common stock issuable upon the exercise of vested and exercisable options. The warrants to purchase common stock do not have a cashless exercise feature. The investor has gifted 100,000 warrants to his in-laws. Such shares are not listed as beneficially owned by Mr. Carpenter in the table above. Mr. Carpenter, who has been our Chief Executive Officer since April 2009, also became our President on April 29, 2011.

(2) Consists of (a) 280,000 shares of common stock, (b) 545,375 shares of common stock issuable upon the conversion of convertible notes, (c) 340,000 shares of common stock issuable upon the exercise of vested and exercisable warrants (of which 250,000 have a cashless exercise feature) and (d) 225,000 shares of common stock issuable upon the exercise of vested and exercisable options. Prior to becoming an employee of our company, Mr. Buck was a financial consultant to CNS Response.

(3) Consists of (a) 98,044 shares of common stock, (b) 12,501 shares of common stock issuable upon the exercise of vested and exercisable warrants and (c) 1,183,083 shares of common stock issuable upon the exercise of vested and exercisable options. The warrants to purchase common stock have a cashless exercise feature. Dr. Hoffman is our Chief Medical Officer and served as our President from April 2009 to April 29, 2011.

(4) Consists of 187,500 shares of common stock issuable upon the exercise of vested and exercisable options.

(5) Consists of (a) 6,471,067 shares of common stock held by SAIL Venture Partners, L.P., (b) 13,594,999 shares of common stock issuable upon the conversion of convertible notes, of which 8,883,437 are held by SAIL Venture Partners, L.P. and 4,711,562 are held by SAIL 2010 Co-Investment Partners, L.P., (c) 8,905,428 shares of common stock issuable upon the exercise of vested and exercisable warrants, of which 6,717,928 are held by SAIL Venture Partners, L.P. and 2,187,500 are held by SAIL 2010 Co-Investment Partners, L.P., and (d) 166,672 shares of common stock issuable upon the exercise of vested and exercisable options held by David Jones and assigned to SAIL Venture Partners, L.P. All but 1,419,178 of the warrants have a cashless exercise feature. SAIL Venture Partners, LLC is the general partner of SAIL Venture Partners, L.P. The unanimous vote of the managing members of SAIL Venture Partners, LLC (who are David Jones, Walter Schindler, Alan Sellers, Henry Habicht and Michael Hammons), is required to make voting and investment decisions over the shares held by SAIL Venture Partners, L.P. SAIL 2010 Co-Investment Partners GP, LLC is the general partner of SAIL 2010 Co-Investment Partners, L.P. SAIL Holdings, LLC is the general partner of SAIL 2010 Co-Investment Partners GP, LLC. The managing member of SAIL Holdings, LLC is Walter Schindler. Mr. Schindler therefore holds voting and investment power over the shares held by SAIL 2010 Co-Investment Partners, L.P. The address of SAIL Venture Partners, L.P. , SAIL 2010 Co-Investment Partners, L.P., SAIL Venture Partners, LLC, SAIL 2010 Co-Investment Partners GP, LLC, SAIL Holdings, LLC and the individual managing members listed above is 3161 Michelson Drive, Suite 750, Irvine, CA 92612. Mr. Jones, who has been our director since March 2007 (and previously was a director of CNS California) was appointed Chairman of the Board on April 29, 2011.

(6) Intentionally omitted.

(7) Consists of (a) 8,333 shares of common stock, (b) 2,501 shares of common stock issuable upon the exercise of vested and exercisable warrants and (c) 589,350 shares of common stock issuable upon the exercise of vested and exercisable options. The warrants to purchase common stock have a cashless exercise feature.

(8) Consists of (a) 9,087,578 shares of common stock, (b) 13,702,115 shares of common stock issuable upon the conversion of convertible notes, (c) 12,141,774 shares of common stock issuable upon the exercise of vested and exercisable warrants, and (d) 166,672 shares of common stock issuable upon the exercise of vested and exercisable options. Of the warrants to purchase common stock, all but 3,333,334 do not have a cashless exercise feature. The address of John Pappajohn is 2116 Financial Center, Des Moines, IA 50309.

(9) Consists of (a) 38,000 shares of common stock, (b) 8,512,426 shares of common stock issuable upon the conversion of convertible notes, (c) 2,786,750 shares of common stock issuable upon the exercise of vested and exercisable warrants and (d) 138,896 shares of common stock issuable upon the exercise of vested and exercisable options. All the warrants have a cashless exercise. The notes and warrants are held by Deerwood Partners LLC and Deerwood Holdings LLC, respectively, of which our director George Kallins is the co-managing member along with his spouse, and by BGN Acquisition Ltd., LP, of which our director George Kallins is the managing partner. The address of Deerwood Partners LLC and Deerwood Holdings LLC is 16 Deerwood Lane, Newport Beach, CA 92660. The address of BGN Acquisition Ltd., LP is 3720 S. Susan Street, Suite 100, Santa Ana, CA 92704.

(10) Consists of (a) 2,559,375 shares of common stock issuable upon the conversion of convertible notes, (c) 2,500,000 shares of common stock issuable upon the exercise of vested and exercisable warrants. These warrants all have a cashless exercise feature. The address of Zachary McAdoo is 635 Madison Avenue, 15th Floor, New York, NY 10022.

(11) Consists of (a) 16,343,022 shares of common stock (b) 38,914,290 shares of common stock issuable upon the conversion of convertible notes, (c) 26,768,954 shares of common stock issuable upon the exercise of vested and exercisable warrants and (d) 5,626,046 shares of common stock issuable upon the exercise of vested and exercisable options.

(12) Consists of (a) 8,890,795 shares of common stock (including 540,000 shares held by Mr. Brandt's children and 956,164 shares held by Brandt Ventures), (b) 478,082 shares of common stock issuable upon the exercise of vested and exercisable warrants which are held by Brandt Ventures and (c) 1,111,459 shares of common stock issuable upon the exercise of vested and exercisable options to purchase common stock held by Mr. Brandt. The 478,082 warrants to purchase common stock do not have a cashless exercise feature. The address of Leonard Brandt is 28911 Via Hacienda, San Juan Capistrano, CA 92675. Leonard Brandt became our Chairman of the Board, Chief Executive Officer and Secretary upon completion of our merger with CNS California and served in these positions until April 10, 2009. Mr. Brandt is a founder of CNS California, and previously served as its President and Chief Executive Officer, and as a member of its Board of Directors.

(13) Consists of (a) 7,790,000 shares of common stock issuable upon the conversion of convertible notes and (b) 3,500,000 shares of common stock issuable upon the exercise of vested and exercisable warrants. All these warrants have a cashless exercise feature. Mr. Sassine holds these notes and warrants in his personal capacity as an investor. His principal business address is 82 Devonshire Street, Boston, MA 02109.

(14) Consists of (a) 745,782 shares of common stock, of which 680,950 shares are held by Highland Long Short Healthcare Fund ("Highland") and 64,832 shares are held by Cummings Bay Healthcare Fund ("Cummings"), (b) 10,418,250 shares of common stock issuable upon the conversion of convertible notes, of which 8,808,000 shares relate to notes held by Highland and 1,610,250 shares relate to notes held by Cummings, (c) 4,750,000 shares of common stock issuable upon the exercise of vested and exercisable warrants, of which 4,000,000 shares relate to warrants held by Highland and 750,000 shares relate to warrants held by Cummings. Mr. Michael Gregory is the portfolio manager of Highland and Cummings and has sole voting and investment power with respect to the Company's securities held by Highland and Cummings. The principal business address for Mr. Gregory, as well as for Highland and Cummings, is 13455 Noel Road, Dallas, TX 75240.

Changes in Control

We do not have any arrangements which may at a subsequent date result in a change in control.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding our equity compensation plans as of September 30, 2011.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (c)
Equity compensation plans approved by security holders	15,725,121	$ 0.62	1,699,202
Equity compensation plans not approved by security holders	0	$ 0	0
Total	15,725,121	$ 0.62	1,699,202

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.

Certain Relationships and Related Transactions

Except as follows, since October 1, 2008, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we are or will be a party:

- in which the amount involved exceeds the lesser of $120,000 or 1% of the average of our total assets at year-end for the last two completed fiscal years; and
- in which any director, executive officer, or other stockholder of more than 5% of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

Terms of Transactions with Related Persons

October - November 2010 Senior Notes

On October 1, 2010, in connection with a private placement of convertible promissory notes (the "October Notes") and warrants expected to be completed with new independent investors, we entered into a Note and Warrant Purchase Agreement (the "October Note Purchase Agreement") with John Pappajohn and SAIL as investors. Pursuant to this agreement, we issued October Notes in the aggregate principal amount of $3,023,900 and warrants to purchase 5,039,889 shares of common stock in October and November 2010. The October Note Purchase Agreement provided for the issuance and sale of October Notes and warrants to purchase a number of shares corresponding to 50% of the number of shares issuable on conversion of the October Notes, in one or multiple closings. The October Note Purchase Agreement also provides that we and the holders of the October Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the October Notes and the related warrants.

The October Notes mature one year after the date of issuance (subject to earlier conversion or prepayment), earn interest equal to 9% per year with interest payable at maturity, and are convertible into shares of our common stock at a conversion price of $0.30. The conversion price is subject to adjustment upon (1) the subdivision or combination of, or stock dividends paid on, the common stock; (2) the issuance of cash dividends and distributions on the common stock; (3) the distribution of other capital stock, indebtedness or other non-cash assets; and (4) the completion of a financing at a price below the conversion price then in effect. The October Notes are furthermore convertible, at the option of the holder, into securities to be issued in subsequent financings at the lower of the then-applicable conversion price or price per share payable by purchasers of such securities. The October Notes can be declared due and payable upon an event of default, defined in the October Notes to occur, among other things, if we fail to pay principal and interest when due, in the case of voluntary or involuntary bankruptcy or if we fail to perform any covenant or agreement as required by the October Note.

Our obligations under the terms of the October Notes were secured by a security interest in our tangible and intangible assets, pursuant to a Security Agreement, dated as of October 1, 2010, by and between us and John Pappajohn, as administrative agent for the holders of the October Notes. The agreement and corresponding security interest were to terminate if and when holders of a majority of the aggregate principal amount of October Notes issued have converted their October Notes into shares of common stock.

The warrants related to the October Notes expire between September 30, 2017 and November 10, 2017 and are exercisable for shares of our common stock at an exercise price of $0.30. Exercise price and number of shares issuable upon exercise are subject to adjustment (1) upon the subdivision or combination of, or stock dividends paid on, the common stock; (2) in case of any reclassification, capital reorganization or change in capital stock and (3) upon the completion of a financing at a price below the exercise price then in effect. Any provision of the October Notes or related warrants can be amended, waived or modified upon the written consent of us and holders of a majority of the aggregate principal amount of such notes outstanding. Any such consent will affect all October Notes or warrants, as the case may be, and will be binding on all holders thereof.

As described below, two of our affiliates exchanged previously-issued notes (2010 Bridge Notes and Deerwood Notes, as defined below) and related warrants for October Notes and related warrants. The following table shows the differences in terms between the October Notes and related warrants, on the one hand, and the exchanged 2010 Bridge Notes and Deerwood Notes and related warrants, on the other hand.

Term	2010 Bridge Note/Deerwood Note	October Note
Maturity	December 15, 2010	One year from the date of issuance
Initial Conversion Price	$0.50, with any adjustment being subject to a $0.30 floor	$0.30
If Company issues common stock (or securities convertible, exercisable or exchangeable for common stock), at a consideration (or conversion, exercise or exchange price) (the "Offering Price") less than the Conversion Price, Conversion Price will be adjusted to match the Offering Price ("Ratchet")	No	Yes
Prepayment upon financing with aggregate proceeds of not less than $3 million	Yes	No
Noteholder has Security Interest	Yes (Bridge Note) No (Deerwood Note)	Yes. Benefits of security agreement expire on the date that holders of a majority of aggregate principal amount of notes issued have converted their Notes in accordance with their terms.
Events of Default (Differences only)	☐ General assignment to creditors ☐ Bankruptcy proceeding, which is not dismissed within 60 days ☐ Entry of final judgment for the payment of money in excess of $25,000 and failure to satisfy for 30 days	☐ Voluntary bankruptcy filing ☐ Failure to comply with Use of Proceeds covenant in purchase agreement ☐ Court enters bankruptcy order that is not vacated, set aside or reversed within 60 days
Option to convert notes into securities to be issued in subsequent financings at the lower of conversion price or price per share payable by purchasers of such securities	No	Yes
Amendments, waivers or modification of the note or related warrants requires written consent of the holders of a majority of the aggregate principal amount of the notes outstanding, and such written consent will be binding on all holders	N/A - single investors	Yes
Warrant Coverage	25% (in case of Deerwood Notes, 40% of which was issued to guarantor of Deerwood Notes)	50% (in case of Deerwood entities, 40% of which was issued to guarantor of notes issued to Deerwood entities)
Initial Exercise Price of Warrants	$0.50 (Bridge Note); $0.56 (Deerwood Note)	$0.30
Ratchet as applied to Warrants (see definition above)	Results in a decrease in exercise price	Results in a decrease in exercise price and corresponding increase in number of shares issuable

January - April 2011 Subordinated Notes

Between January and April 2011, we issued subordinated convertible promissory notes (the "January Notes") in the aggregate principal amount of $2,500,000 and warrants to purchase 4,166,660 shares of our common stock pursuant to a note and warrant purchase agreement (the "January Note Purchase Agreement"). The January Note Purchase Agreement provides for the issuance and sale of January Notes in the aggregate principal amount of up to $5,000,000, and warrants to purchase a number of shares corresponding to 50% of the number of shares issuable on conversion of the January Notes, in one or multiple closings to occur no later than July 31, 2011. The January Note Purchase Agreement also provides that we and the holders of the January Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the January Notes and the related warrants.

The January Notes mature one year from the date of issuance (subject to earlier conversion or prepayment), earn interest equal to 9% per year with interest payable at maturity, are convertible into shares of our common stock at a conversion price of $0.30, are not secured by any of our assets and are subordinated in all respects to our obligations under the October Notes and the related guaranties issued to certain investors by SAIL Venture Partners, L.P. The conversion price is subject to adjustment upon (1) the subdivision or combination of, or stock dividends paid on, the common stock; (2) the issuance of cash dividends and distributions on the common stock; (3) the distribution of other capital stock, indebtedness or other non-cash assets; and (4) the completion of a financing at a price below the conversion price then in effect. The January Notes are furthermore convertible, at the option of the holder, into securities to be issued in subsequent financings at the lower of the then-applicable conversion price or price per share payable by purchasers of such securities. The January Notes can be declared due and payable upon an event of default, defined in the January Notes to occur, among other things, if we fail to pay principal and interest when due, in the case of voluntary or involuntary bankruptcy or if we fail to perform any covenant or agreement as required by the January Note.

The warrants related to the January Notes expire seven years from the date of issuance and are exercisable for shares of our common stock at an exercise price of $0.30. Exercise price and number of shares issuable upon exercise are subject to adjustment (1) upon the subdivision or combination of, or stock dividends paid on, the common stock; (2) in case of any reclassification, capital reorganization or change in capital stock and (3) upon the completion of a financing at a price below the exercise price then in effect. Any provision of the January Notes or related warrants can be amended, waived or modified upon the written consent of us and holders of a majority of the aggregate principal amount of such notes outstanding. Any such consent will affect all January Notes or warrants, as the case may be, and will be binding on all holders thereof.

Amendment of October Notes and January Notes

On October 11, 2011, we, with the consent of holders of a majority in aggregate principal amount outstanding (the "Majority Holders") of our outstanding January Notes, amended all of the January Notes to extend the maturity of such notes until October 1, 2012. The amendment, which is effective as of September 30, 2011, also added a mandatory conversion provision to the terms of the January Notes. Under that provision, the January Notes would be automatically converted upon the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million (the "Qualified Offering"). If the public offering price is less than the conversion price then in effect, the conversion price will be adjusted to match the public offering price (the "Qualified Offering Price"). Pursuant to the terms of the amendment, the January Notes would receive a second position security interest in the assets of the Company (including its intellectual property). The Majority Holders of the January Notes also consented to the terms of a new $2 million bridge financing (the "2011 Bridge Financing") and to granting the investors in such financing a second position security interest in the assets of the Company (including its intellectual property) that is pari passu with the second position security interest received by the holders of the January Notes.

On October 12, 2011, the Company, with the consent of the Majority Holders of its October Notes, amended all of the October Notes to extend the maturity of such notes until October 1, 2012. The amendment, which is effective as of September 30, 2011, also added the same mandatory conversion and conversion price adjustment provisions to the terms of the October Notes as were added to the terms of the January Notes. The Majority Holders of the October Notes also consented to the terms of the Bridge Financing and to granting the investors in such financing as well as the holders of the Company's January Notes a second position security interest in the assets of the Company (including its intellectual property). The guaranties that had been issued in 2010 to certain October Note investors by SAIL Venture Partners, L.P. were extended accordingly. See "- Transactions with SAIL Venture Partners, L.P. ("SAIL")" and "- Transactions with George Kallins, M.D." below.

Pursuant to the agreements amending the October Notes and January Notes (the "Amendment and Conversion Agreements"), the exercise price of the warrants that were issued in connection with the October Notes and the January Notes (the "Outstanding Warrants") will be adjusted to match the Qualified Offering Price, if such price is lower than the exercise price then in effect. The Company agreed to issue to each holder of the October Notes and January Notes, as consideration for the above, warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by each holder upon conversion of their notes at the closing of the Qualified Offering (the "Consideration Warrants"). The Consideration Warrants would be issued after the Qualified Offering and would have the same terms as the Outstanding Warrants, as amended.

The Amended and Restated Security Agreement, dated as of September 30, 2011, between the Company and Paul Buck, as administrative agent for the secured parties (the "Amended and Restated Security Agreement"), which replaces the existing security agreement from 2010, and the corresponding security interest terminate (1) with respect to the October Notes, if and when holders of a majority of the aggregate principal amount of October Notes issued have converted their notes into shares of common stock and, (2) with respect to the January Notes and the 2011 Bridge Notes (defined in the following paragraph), if and when holders of a majority of the aggregate principal amount of January Notes and 2011 Bridge Notes (on a combined basis) have converted their notes.

2011 Bridge Financing

On October 18, 2011, CNS Response, Inc. (the "Company") entered into a new note and warrant purchase agreement in connection with a $2 million bridge financing (the "2011 Bridge Financing"), with John Pappajohn, a member of the Company's Board of Directors. Pursuant to the agreement, the Company issued subordinated secured convertible notes (the "2011 Bridge Notes") in the aggregate principal amount of $250,000 and warrants to purchase 1,250,000 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $250,000.

The new note and warrant purchase agreement initially provided for the issuance and sale of 2011 Bridge Notes in the aggregate principal amount of up to $2,000,000, and warrants to purchase a number of shares corresponding to 50% of the number of shares issuable on conversion of the 2011 Bridge Notes, in one or multiple closings to occur no later than April 1, 2012. On November 11, 2011, the Company entered into an Amended and Restated Note and Warrant Purchase Agreement (the "2011 Bridge Financing Purchase Agreement") in connection with the Bridge Financing, which amended and restated the October agreement in that it increased the warrant coverage from 50% to 100%. In addition, each holder's option to redeem or convert their 2011 Bridge Note at the closing of the Qualified Offering (defined below) can now only be amended, waived or modified with the consent of the Company and that holder.

The 2011 Bridge Financing Purchase Agreement provides for the issuance and sale of 2011 Bridge Notes (including the notes issued in October 2011) in the aggregate principal amount of up to $2,000,000, and warrants to purchase a number of shares corresponding to 100% of the number of shares issuable on conversion of the Bridge Notes, in one or multiple closings to occur no later than April 1, 2012. The 2011 Bridge Financing Purchase Agreement also provides that the Company and the holders of the 2011 Bridge Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the 2011 Bridge Notes and the related warrants.

The 2011 Bridge Notes mature one year from the date of issuance (subject to earlier conversion or prepayment), earn interest equal to 9% per year with interest payable at maturity, are convertible into shares of common stock of the Company at a conversion price of $0.10, are secured by a second position security interest in the Company's assets that is pari passu with the interest recently granted to the holders of the January Notes, are subordinated in all respects to the Company's obligations under its October Notes and the related guaranties issued to certain investors by SAIL Venture Partners, L.P. and are pari passu to the obligations under the January Notes. The second position security interest is governed by the amended and restated security agreement, dated as of September 30, 2011, between the Company and Paul Buck, as administrative agent for the secured parties (the "Amended and Restated Security Agreement"), which replaced the security agreement entered into in connection with the issuance of the October Notes in 2010.

The conversion price of the 2011 Bridge Notes is subject to adjustment upon (1) the subdivision or combination of, or stock dividends paid on, the common stock; (2) the issuance of cash dividends and distributions on the common stock; (3) the distribution of other capital stock, indebtedness or other non-cash assets; and (4) the completion of a financing at a price below the conversion price then in effect. At the closing of a public offering by the Company of shares of its common stock and/or other securities with gross proceeds to the Company of at least $10 million (the "Qualified Offering"), each 2011 Bridge Note will be either redeemed or converted (in whole or in part) at a conversion price equal to the lesser of the public offering price or the conversion price then in effect, with the choice between redemption and conversion being at the sole option of the holder. The 2011 Bridge Notes can be declared due and payable upon an event of default, defined in the 2011 Bridge Notes to occur, among other things, if the Company fails to pay principal and interest when due, in the case of voluntary or involuntary bankruptcy or if the Company fails to perform any covenant or agreement as required by the 2011 Bridge Note or materially breaches any representation or warranty in the 2011 Bridge Note or the 2011 Bridge Financing Purchase Agreement.

The warrants related to the 2011 Bridge Notes expire five years from the date of issuance and are exercisable for shares of common stock of the Company at an exercise price of $0.10. Exercise price and number of shares issuable upon exercise are subject to adjustment (1) upon the subdivision or combination of, or stock dividends paid on, the common stock; (2) in case of any reclassification, capital reorganization or change in capital stock and (3) upon the completion of a financing at a price below the exercise price then in effect (including the Qualified Offering), except that subsequent to the Qualified Offering, the exercise price will not be adjusted for any further financings. The warrants contain a cashless exercise provision.

With the exception of each holder's option to redeem or convert their 2011 Bridge Note at the closing of the Qualified Offering, any provision of the 2011 Bridge Notes or related warrants can be amended, waived or modified upon the written consent of the Company and holders of a majority of the aggregate principal amount of such notes outstanding. Any such majority consent will affect all 2011 Bridge Notes or warrants, as the case may be, and will be binding on the Company and all holders of the 2011 Bridge Notes or warrants. Each holder's option to redeem or convert the 2011 Bridge Note at the closing of the Qualified Offering cannot be amended, waived or modified without the written consent of the Company and such holder and such amendment, waiver or modification will be binding only on the Company and such holder.

The Amended and Restated Security Agreement and the corresponding security interest terminate (1) with respect to the October Notes, if and when holders of a majority of the aggregate principal amount of October Notes issued have converted their notes into shares of common stock and (2) with respect to the January Notes and 2011 Bridge Notes, if and when holders of a majority of the aggregate principal amount of January Notes and 2011 Bridge Notes (on a combined basis) have converted their notes.

As a result of the issuance of 2011 Bridge Notes at a conversion price of $0.10 and the associated warrants to purchase common stock at an exercise price of $0.10, the ratchet provision in the October Notes and January Notes was triggered, with the result that the conversion price of such notes was lowered from $0.30 to $0.10, the exercise price of the associated warrants was lowered from $0.30 to $0.10 per share, and the number of shares underlying such notes and warrants was proportionately increased.

Transactions with George Carpenter

On December 24, 2009, we completed a second closing of our private placement in which we received gross proceeds of approximately $3 million, which included $108,000 invested by Mr. Carpenter. In exchange for his investment, we issued to Mr. Carpenter 360,000 shares of our common stock and a five year non-callable warrant to purchase 180,000 shares of our common stock at an exercise price of $0.30 per share. This investment was completed with terms identical to those received by all other investors in our private placement closings that took place on August 26, 2009, December 24, 2009, December 31, 2009 and January 4, 2010.

On February 15, 2011, we issued January Notes in the aggregate principal amount of $50,000 and warrants to purchase 83,333 shares of our common stock to a trust, the trustee of which is Mr. Carpenter's father-in-law. As of November 15, 2011, the trust held January Notes in the aggregate principal amount of $50,000, which is also the largest aggregate principal amount of notes outstanding for such trust since October 1, 2010. Total interest as at September 30, 2011 of $2,800 has accrued (but not been paid) on such notes at an interest rate of 9%. In connection with the amendment of the January Notes discussed above, the trust will receive Consideration Warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by the trust upon conversion of its notes at the closing of the Qualified Offering. In connection with the 2011 Bridge Financing, the conversion price of the January Notes and the exercise price of the related warrants was adjusted to $0.10 and the number of underlying shares were adjusted accordingly.

Transactions with SAIL Venture Partners LP ("SAIL")

On March 30, 2009, we executed two senior secured convertible promissory notes each in the principal amount of $250,000 with SAIL Venture Partners, LP ("SAIL") and Brandt Ventures, GP ("Brandt"). David Jones, a member of our board of directors, is one of five managing members of SAIL Venture Partners, LLC, which is the general partner of SAIL. Leonard Brandt, also a member of our board of directors until December 3, 2009 and our former Chief Executive Officer, is the general partner of Brandt.

These notes accrued interest at the rate of 8% per annum and were due and payable upon a declaration by the note holder(s) requesting repayment, unless sooner converted into shares of our common stock (as described below), upon the earlier to occur of: (i) June 30, 2009 or (ii) an Event of Default (as defined in the notes), which includes the default that occurred as a result of Mr. Brandt no longer serving as our Chief Executive Officer effective as of April 10, 2009. The notes were secured by a lien on substantially all of our assets (including all intellectual property). In the event of a liquidation, dissolution or winding up of our company, unless Brandt and/or SAIL informed us otherwise, we were required to pay such investor an amount equal to the product of 250% multiplied by the principal and all accrued but unpaid interest outstanding on the note.

In concert with an equity financing transaction of at least $1,500,000 (excluding any and all other debt that is converted), the principal and all accrued, but unpaid interest outstanding under the notes would 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.

On May 14, 2009, we entered into a bridge note and warrant purchase agreement with SAIL. Pursuant to the purchase agreement, on May 14, 2009, SAIL purchased a secured promissory note in the principal amount of $200,000 from us. In order to induce SAIL to purchase the note, we issued to SAIL a warrant to purchase up to 100,000 shares of our common stock at a purchase price equal to $0.25 per share. The warrant expires on the earlier to occur of May 31, 2016 or a change of control of our company.

The purchase agreement also provided that, at any time on or after June 3, 2009, and provided that certain conditions are satisfied by us, SAIL would purchase from us a second secured convertible promissory note in the principal sum of $200,000 and would be issued a second warrant identical in terms to the warrant described above. The aforementioned conditions include our entry into a term sheet in which investors commit to participate in an equity financing by us of not less than $2,000,000 (excluding any and all other debt that are to be converted).

The notes issued or issuable pursuant to the purchase agreement accrued interest at the rate of 8% per annum and were due and payable, unless sooner converted into shares of our common stock (as described below), upon the earlier to occur of: (i) a declaration by SAIL on or after June 30, 2009 or (ii) an Event of Default as defined in the notes. The note(s) were secured by a lien on substantially all of our assets (including all intellectual property). In the event of a liquidation, dissolution or winding up of our company, unless SAIL informs us otherwise, we were required to pay SAIL an amount equal to the product of 250% multiplied by the principal and all accrued but unpaid interest outstanding on the note(s).

In the event we consummated 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(s) would 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 addition, in the event we issued preferred stock that was not part of an equity financing described above, SAIL was entitled, at its option, to convert the principal and all accrued, but unpaid interest outstanding under the note(s) into preferred stock by dividing such amount by 85% of the per share price paid by the purchasers' of our preferred stock.

On August 26, 2009, we completed an equity financing transaction of approximately $2 million. As a result of the financing, each of the notes described above that were held by SAIL and Brandt were automatically converted into common stock, with SAIL receiving 1,758,356 shares and Brandt receiving 956,164 shares. In addition, SAIL was issued a non-callable five year warrant to purchase 879,178 shares of common stock at an exercise price of $0.30 per share and Brandt was issued a non-callable five year warrant to purchase 478,082 shares of common stock at an exercise price of $0.30 per share.

In connection with the equity financing referred to above, on August 26, 2009, SAIL purchased 6 "units" for $324,000. Each unit consisted of 180,000 shares of common stock and a five year non-callable warrant to purchase an additional 90,000 shares of common stock at an exercise price of $0.30 per share. The shares of common stock and warrants comprising the Units were immediately separable and were issued separately. This investment was completed with terms identical to those received by all other investors in our private placement closings that took place on August 26, 2009, December 24, 2009, December 31, 2009 and January 4, 2010.

On July 5, 2010 and August 20, 2010, we issued unsecured promissory notes (each, a "Deerwood Note") in the aggregate principal amount of $500,000 to Deerwood Partners LLC and Deerwood Holdings LLC, with each investor purchasing two notes in the aggregate principal amount of $250,000. Our director George Kallins and his spouse are the managing members of these investors. SAIL issued unconditional guaranties to each of these investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under each Deerwood Note. In addition, on August 20, 2010, we granted SAIL warrants to purchase up to an aggregate of 100,000 shares of common stock at an exercise price (subject to anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) of $0.56 per share. We entered into an oral agreement to indemnify SAIL and grant to SAIL a security interest in our assets in connection with the guaranties.

On October 1, 2010, pursuant to the October Note Purchase Agreement, the Company issued to SAIL October Notes in the aggregate principal amount of $250,000 and warrants to purchase up to 416,666 shares of common stock. We received $250,000 in gross proceeds from the issuance to SAIL.

On November 3, 2010, we issued October Notes in the aggregate principal amount of $512,250, and related warrants to purchase up to 512,250 shares, to Deerwood Holdings LLC and Deerwood Partners LLC, two entities controlled by Dr . Kallins, in exchange for the cancellation of the Deerwood Notes originally issued on July 5, 2010 and August 20, 2010 in the aggregate principal amount of $500,000 (and accrued and unpaid interest on those notes) and warrants to purchase an aggregate of up to 150,000 shares originally issued on August 20, 2010. The related guaranties and oral indemnification and security agreement that had been entered into in connection with the Deerwood Notes were likewise terminated. SAIL issued unconditional guaranties to each of the Deerwood investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under the October Notes issued to such investors. The obligations under each guaranty are independent of our obligations under the October Notes and separate actions may be brought against the guarantor. In connection with its serving as guarantor, we granted SAIL warrants to purchase up to an aggregate of 341,498 shares of common stock. The warrants to purchase 100,000 shares of common stock previously granted to SAIL on August 20, 2010 were canceled.

On February 28, 2011, we issued to SAIL Venture Partners, LP January Notes in the aggregate principal amount of $187,500 and warrants to purchase up to 312,500 shares of common stock pursuant to the January Note Purchase Agreement. Additionally, we issued to SAIL 2010 Co-Investment Partners, L.P. January Notes in the aggregate principal amount of $62,500 and warrants to purchase up to 104,166 shares of common stock. We received $187,500 from SAIL Venture Partners, LP and $62,500 from SAIL 2010 Co-Investment Partners, L.P. for an aggregate total of $250,000 in gross proceeds.

On April 15, 2011, we issued to SAIL Venture Partners, LP January Notes in the aggregate principal amount of $250,000 and warrants to purchase up to 416,666 shares of common stock pursuant to the January Note Purchase Agreement. Additionally, we also issued to SAIL 2010 Co-Investment Partners, L.P. January Notes in the aggregate principal amount of $250,000 and warrants to purchase up to 416,666 shares of common stock. We received $250,000 from SAIL Venture Partners, LP and $250,000 from SAIL 2010 Co-Investment Partners, L.P. for an aggregate total of $500,000 in gross proceeds.

On April 25, 2011, we issued to SAIL Venture Partners, LP January Notes in the aggregate principal amount of $125,000 and warrants to purchase up to 208,333 shares of common stock pursuant to the January Note Purchase Agreement. Additionally, we also issued to SAIL 2010 Co-Investment Partners, L.P. January Notes in the aggregate principal amount of $125,000 and warrants to purchase up to 208,333 shares of common stock. We received $125,000 from SAIL Venture Partners, LP and $125,000 from SAIL 2010 Co-Investment Partners, L.P. for an aggregate total of $250,000 in gross proceeds.

As of November 15, 2011, SAIL Venture Partners, LP and SAIL 2010 Co-Investment Partners, L.P. held October Notes and January Notes in the aggregate principal amount of $1,250,000, which is also the largest aggregate principal amount of notes outstanding for SAIL Venture Partners, LP and SAIL 2010 Co-Investment Partners, L.P. since October 1, 2010. Total interest as at September 30, 2011 of $67,000 has accrued (but not been paid) on such notes at an interest rate of 9%. In connection with the amendment of the October Notes and January Notes discussed above, SAIL Venture Partners, LP and SAIL 2010 Co-Investment Partners, L.P. will receive Consideration Warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by them upon conversion of their notes at the closing of the Qualified Offering. In connection with the 2011 Bridge Financing, the conversion price of the October Notes and January Notes and the exercise price of the related warrants was adjusted to $0.10 and the number of underlying shares were adjusted accordingly.

Transactions with Daniel Hoffman M.D.

On January 11, 2008, we, through our wholly owned subsidiary, Colorado CNS Response, Inc. and pursuant to the terms of a stock purchase agreement, acquired all of the outstanding common stock of Neuro-Therapy Clinic, PC, a Colorado professional medical corporation wholly owned by Dr. Hoffman ("NTC") in exchange for a non-interest bearing note of $300,000 payable in equal monthly installments over 36 months. At the time of the transaction, NTC was our largest customer. Upon the completion of the acquisition, Dr. Hoffman was appointed our Chief Medical Officer. The stock purchase agreement provides that upon the occurrence of certain events, as defined in the purchase agreement, Dr. Hoffman has a repurchase option for a period of three years subsequent to the closing, as well as certain rights of first refusal, in relation to the assets and liabilities we acquired. As of December 31, 2010, the principal amount of such note was fully repaid.

Prior to his employment, from October 1, 2007 to January 15, 2008, Dr. Hoffman earned $15,000 for consulting services rendered to us. In addition, as compensation for his services to us as a consultant, Dr. Hoffman was granted options to purchase an aggregate of 814,062 shares of our common stock at an exercise price of $1.09 on August 7, 2007. In accordance with the terms of his employment agreement, the terms of Dr. Hoffman's option grant were amended to provide that in the event of a change of control transaction, a portion of Dr. Hoffman's unvested options equal to the number of unvested options at the date of the corporate transaction multiplied by the ratio of the time elapsed between August 7, 2007 and the date of corporate transaction over the vesting period (42 months), will automatically accelerate, and become fully vested.

Transactions with John Pappajohn

In conjunction with the closing of our private placement on August 26, 2009, Mr. Pappajohn joined our Board of Directors.

On June 12, 2009, we entered into a bridge note and warrant purchase agreement with Mr. Pappajohn pursuant to which Mr. Pappajohn purchased a secured convertible promissory note in the principal amount of $1,000,000 from us. In order to induce Mr. Pappajohn to purchase the note, we issued to Mr. Pappajohn a warrant to purchase up to 2,333,333 shares of our common stock and issued to relatives of Mr. Pappajohn warrants to purchase up to a total of 1,000,000 shares, all at a purchase price equal to $0.30 per share. These warrants were exercised for shares of common stock in cashless exercises on February 23, 2010 and February 24, 2010.

The note issued pursuant to the purchase agreement provided that the principal amount of $1,000,000 together with a single premium payment of $90,000 which is due and payable, unless sooner converted into shares of our 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 our assets (including all intellectual property). In the event of a liquidation, dissolution or winding up of our company, unless Mr. Pappajohn informs us otherwise, we were 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 note also contained a provision that, in the event we 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 will be repaid in cash at the time of such equity financing) shall 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.

On August 26, 2009, we completed an equity financing transaction of approximately $2 million. As a result of the financing, the note described above held by Mr. Pappajohn automatically converted into common stock, with Mr. Pappajohn receiving 3,333,334 shares. In addition, pursuant to the terms of the note, Mr. Pappajohn received a five year non-callable warrant to purchase 1,666,667 shares of common stock at an exercise price of $0.30 per share.

In connection with the equity financing referred to above, on August 26, 2009, Mr. Pappajohn invested an additional $1,000,000 in us. In exchange for his investment, we issued an additional 3,333,333 shares of common stock to Mr. Pappajohn and a five year non-callable warrant to purchase 1,666,667 shares of common stock at an exercise price of $0.30 per share. The terms of this investment were identical to the terms received by all other investors in our private placement closings that took place on August 26, 2009, December 24, 2009, December 31, 2009 and January 4, 2010.

We intend to reimburse Equity Dynamics, Inc., a company solely owned by Mr. Pappajohn, for expenses which Equity Dynamics incurred between May and December, 2009 on behalf of CNS Response, Inc. These expenses include $34,700 incurred in connection with our private placement financing and other activities.

On February 23, 2010, Mr. Pappajohn exercised 2,333,333 warrants and was issued 1,720,910 shares of common stock in a net exercise of warrants in lieu of cash transaction. Mr. Pappajohn received 1,720,910 shares in connection with his cashless exercise.

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 "2010 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 us $250,000 in exchange for the first 2010 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 2010 Bridge Note. In connection with his purchase of the second 2010 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 anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) was $0.50 per share.

Pursuant to a separate agreement that we entered into with Mr. Pappajohn, we granted him a right to convert the 2010 Bridge Notes into shares of our common stock at a conversion price of $0.50. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $0.30.

Each 2010 Bridge Note accrued interest at a rate of 9% per annum which would have been paid together with the repayment of the principal amount at the earliest of (i) the maturity date; (ii) prepayment of the 2010 Bridge 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 2010 Bridge Note). The Purchase Agreement and each 2010 Bridge Note granted the investor a senior security interest in and to all of our existing and future right, title and interest in its tangible and intangible property.

On October 1, 2010, in connection with a private placement of our October Notes and warrants expected to be completed with new independent investors, we entered into the October Note Purchase Agreement with John Pappajohn and SAIL as investors. Pursuant to this agreement, we issued to Mr. Pappajohn October Notes in the aggregate principal amount of $761,688 and warrants to purchase up to 1,269,478 shares of common stock. We received $250,000 in gross proceeds from the issuance to Mr. Pappajohn. We also issued October Notes in the aggregate principal amount of $511,688, and related warrants to purchase up to 852,812 shares, to Mr. Pappajohn in exchange for the cancellation of the two 2010 Bridge Notes originally issued to him on June 3, 2010 and July 25, 2010 in the aggregate principal amount of $500,000 (and accrued and unpaid interest on those notes) and a warrant to purchase up to 250,000 shares originally issued to him on July 25, 2010. As of November 15, 2011, Mr. Pappajohn holds October Notes in the aggregate principal amount of $761,700. Total interest as of September 30, 2011 of $69,300 has accrued (but not been paid) on such notes at an interest rate of 9%.

In connection with the amendment of the October Notes discussed above, Mr. Pappajohn will receive Consideration Warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by him upon conversion of his notes at the closing of the Qualified Offering. In connection with the 2011 Bridge Financing, the conversion price of the October Notes and the exercise price of the related warrants was adjusted to $0.10 and the number of underlying shares were adjusted accordingly.

On October 6, 2011 Mr. Pappajohn purchased 700,000 shares of CNS Response on the open market at a price of $0.11 per share.

On October 18, 2011, CNS Response, Inc. issued 2011 Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 1,250,000 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $250,000. On November 11, 2011 (see below) the terms of the corresponding purchase agreement were amended and restated to provide for the issuance of warrants to purchase a number of shares corresponding to 100% of the number of shares issuable on conversion of the 2011 Bridge Notes. Consequently, the shares underlying the warrants issued to Mr. Pappajohn on October 18, 2011 were increased to 2,500,000 shares of common stock.

On November 11, 2011, the Company issued Mr. Pappajohn additional 2011 Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 2,500,000 shares of common stock for gross proceeds to the Company of $250,000 as part of the 2011 Bridge Financing. As of November 15, 2011, the Company has therefore issued 2011 Bridge Notes in the aggregate principal amount of $500,000 and warrants to purchase 5,000,000 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $500,000.

On November 24, 2010 the Board of Directors, excluding Mr. Pappajohn, ratified an engagement agreement with Equity Dynamics, Inc., a company owned by Mr. Pappajohn, to provide financial advisory serviced to assist us with our fund raising efforts. These efforts have included advice and assistance with the preparation of Private Placement Memoranda, investor presentations, financing strategies, identification of potential and actual investors, and introductions to placement agents and investment bankers. The engagement letter calls for a retainer fee of $10,000 per month starting February 1, 2010. As of September 30, 2011, we have accrued $110,000 for the services provided by Equity Dynamics. The term of the agreement is for 12 months from its initiation and can be cancelled by either party, with or without cause, with 30 days written notice.

Transactions with George Kallins M.D.

On July 5, 2010, our Board of Directors appointed George J. Kallins, M.D. to serve as a member of the Board.

On July 5, 2010 and August 20, 2010, we issued unsecured promissory notes (each, a "Deerwood Note") in the aggregate principal amount of $500,000 to Deerwood Partners LLC and Deerwood Holdings LLC, with each investor purchasing two notes in the aggregate principal amount of $250,000. The managing members of each of Deerwood Partners LLC and Deerwood Holdings LLC are George J. Kallins, M.D., who joined our Board of Directors on July 5, 2010, and his spouse Bettina Kallins. We received $250,000 in gross proceeds from the issuance of the first two notes on July 5, 2010 and another $250,000 in gross proceeds from the issuance of the second two notes on August 20, 2010. In connection with the August 20, 2010 transaction, each of the two investors also received a warrant to purchase up to 75,000 shares of our common stock at an exercise price (subject to anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) of $0.56 per share.

SAIL Venture Partners L.P. ("SAIL"), of which our director David Jones is a senior partner, issued unconditional guaranties to each of these investors, guaranteeing the prompt and complete payment when due of all principal, interest and other amounts under each Deerwood Note. The obligations under each guaranty were independent of our obligations under the Deerwood Notes and separate actions could be brought against the guarantor. We entered into an oral agreement to indemnify SAIL and grant to SAIL a security interest in our assets in connection with the guaranties. In addition, on August 20, 2010, we granted SAIL warrants to purchase up to an aggregate of 100,000 shares of common stock at an exercise price (subject to anti-dilution adjustments, including for issuances of securities at prices below the then-effective exercise price) of $0.56 per share.

Each Deerwood Note accrued interest at a rate of 9% per annum, which was payable together with the repayment of the principal amount, unless earlier converted, 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). Each Deerwood Note was convertible into shares of our common stock at a conversion price of $0.50. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $0.30. As of September 30, 2010, Deerwood Partners LLC and Deerwood Holdings LLC held Deerwood Notes in the aggregate principal amount of $500,000.

On November 3, 2010, we issued October Notes in the aggregate principal amount of $762,250 and warrants to purchase up to 1,270,414 shares of common stock to three investors affiliated with Dr. Kallins. We received $250,000 in gross proceeds from the issuance to BGN Acquisition Ltd., LP, an entity controlled by Dr. Kallins, of October Notes in the aggregate principal amount of $250,000 and related warrants to purchase up to 416,666 shares. We also issued October Notes in the aggregate principal amount of $512,250, and related warrants to purchase up to 512,250 shares, to Deerwood Holdings LLC and Deerwood Partners LLC in exchange for the cancellation of the Deerwood Notes originally issued on July 5, 2010 and August 20, 2010 in the aggregate principal amount of $500,000 (and accrued and unpaid interest on those notes) and warrants to purchase an aggregate of up to 150,000 shares originally issued on August 20, 2010. The related guaranties and oral indemnification and security agreement that had been entered into in connection with the Deerwood Notes were likewise terminated. SAIL, of which our director David Jones is a senior partner, issued unconditional guaranties to each of the Deerwood investors in connection with the October Notes.

As of November 15, 2011, Deerwood Holdings LLC, Deerwood Partners LLC and BGN Acquisition Ltd., LP held October Notes in the aggregate principal amount of $762,250, which is also the largest aggregate principal amount of notes outstanding for these entities since October 1, 2010. Total interest as at September 30, 2011 of $63,100 has accrued (but not been paid) on such notes at an interest rate of 9%.

In connection with the amendment of the October Notes discussed above, Deerwood Holdings LLC, Deerwood Partners LLC and BGN Acquisition Ltd. will receive Consideration Warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by them upon conversion of their notes at the closing of the Qualified Offering. In connection with the 2011 Bridge Financing, the conversion price of the October Notes and the exercise price of the related warrants was adjusted to $0.10 and the number of underlying shares were adjusted accordingly.

Transactions with Zachary McAdoo

On November 21, 2011, the Board of Directors elected Zachary McAdoo to the Board. Mr. McAdoo will also serve as Chairman of the Board's Audit Committee.

On November 17, 2011, Zanett Opportunity Fund, Ltd., a Bermuda corporation for which McAdoo Capital, Inc. is the investment manager, purchased 2011 Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 2,500,000 shares of common stock for cash payments aggregating $250,000. Mr. McAdoo is the president and owner of McAdoo Capital, Inc.

Transactions with Paul Buck

On December 24, 2009, we completed a second closing of our private placement which commenced in August 2009 in which we received gross proceeds of approximately $3 million, which included $54,000 invested by Mr. Buck. In exchange for his investment, we issued to Mr. Buck 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. This investment was completed with the identical terms as received by all other investors in our private placement closings that took place on August 26, 2009, December 24, 2009, December 31, 2009 and January 4, 2010.

Prior to his employment by us, Mr. Buck had been working with us as an independent consultant since December 2008, assisting management with finance and accounting matters as well as our filings with the Securities and Exchange Commission. Mr. Buck earned $260,800 in consulting services rendered to us.

On February 15, 2011, we issued to Mr. Buck January Notes in the aggregate principal amount of $50,000 and related warrants to purchase up to 83,333 shares pursuant to the January Note Purchase Agreement. As of November 15, 2011, Mr. Buck holds January Notes in the aggregate principal amount of $50,000, which is also the largest aggregate principal amount of notes outstanding for Mr. Buck since October 1, 2010. Total interest as at September 30, 2011 of $2,800 has accrued (but not been paid) on such notes at an interest rate of 9%.

In connection with the amendment of the January Notes discussed above, Mr. Buck will receive Consideration Warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by him upon conversion of his notes at the closing of the Qualified Offering. In connection with the 2011 Bridge Financing, the conversion price of the October Notes and the exercise price of the related warrants was adjusted to $0.10 and the number of underlying shares were adjusted accordingly.

On October 6, 2011 Mr. Buck purchased 100,000 shares of CNS Response on the open market at a price of $0.10.

Transactions with Beneficial Owners of More than Five Percent of Our Common Stock

On February 23, 2011, an January Note in the aggregate principal amount of $200,000 and a warrant to purchase 333,333 shares of common stock was issued to Mr. Andy Sassine, an accredited investor who had previously invested in us and as a result of the February 23 purchase became a beneficial owner of more than 5% of our outstanding common stock. As of May 31, 2011, Mr. Sassine holds October Notes and January Notes in the aggregate principal amount of $700,000, which is also the largest aggregate principal amount of notes outstanding for Mr. Sassine since October 1, 2008. Total interest as at September 30, 2011 of $55,200 has accrued (but not been paid) on such notes at an interest rate of 9%.

On February 28, 2011, pursuant to the January Note Purchase Agreement, we issued an January Note in the aggregate principal amount of $400,000, and a warrant to purchase 666,666 shares of common stock to Highland Long/Short Healthcare Fund, which had previously invested in us and as a result of the February 28 purchase, when aggregating securities owned by its affiliate Cummings Bay Healthcare Fund, became a beneficial owner of more than 5% of our outstanding common stock. As of May 31, 2011, Highland Long/Short Healthcare Fund and Cummings Bay Healthcare Fund hold October Notes and January Notes in the aggregate principal amount of $950,000, which is also the largest aggregate principal amount of notes outstanding for Highland Long/Short Healthcare Fund and Cummings Bay Healthcare Fund since October 1, 2008. Total interest as at September 30, 2011 of $59,500 has accrued (but not been paid) on such notes at an interest rate of 9%. Mr. Michael Gregory is the portfolio manager for both Highland Long/Short Healthcare Fund and Cummings Bay Healthcare Fund.

In connection with the amendment of the January Notes discussed above, Mr. Sassine, the Highland Long/Short Healthcare Fund and the Cummings Bay Healthcare Fund will receive Consideration Warrants to purchase a number of shares of common stock equal to 30% of the number of shares of common stock to be received by them upon conversion of their notes at the closing of the Qualified Offering. In connection with the 2011 Bridge Financing, the conversion price of the October Notes and the exercise price of the related warrants was adjusted to $0.10 and the number of underlying shares were adjusted accordingly.

Transaction with Staff Members of Equity Dynamics, Inc.

On July 5, 2010 the Board granted warrants to purchase 500,000 shares of common stock to members of staff of Equity Dynamics, Inc. a company owned by Mr. Pappajohn, for consulting services they had rendered to us, advising on and assisting with fund raising activities. Using the Black-Scholes model, these warrants were valued at $199,000 and expensed to consulting fees. These warrants have an exercise price of $0.30 cents per share, are exercisable from the date of grant and had a term of 10 years from the date of grant.

Director Independence

The information required by Item 407(a) of Regulation S-K is incorporated herein by reference to "Item 10. Directors, Executive Officers and Corporate Governance - Board Composition and Committees and Director Independence."

ITEM 14. Principal Accounting Fees and Services.

Pre-Approval Policies and Procedures

During the fiscal years ended September 30, 2010 and 2011, our board of directors had an Audit Committee which performed the duties customarily delegated to it. These duties were the responsibility for interviewing and retaining our independent accountant, considering the accounting firm's independence and effectiveness, and pre-approving the engagement fees and other compensation to be paid to, and the services to be conducted by, the independent accountant. During each of the fiscal years ended September 30, 2011 and 2010, the audit committee pre-approved 100% of the services described below.

Fees Paid to Independent Registered Public Accounting Firm

Audit Fees

The aggregate fees billed for professional services rendered by Cacciamatta Accountancy Corporation for the audit of our annual financial statements and review of the financial statements included in our Form 10-Q's or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal years 2011 and 2010 were $144,800 and $151,700, respectively.

Audit-Related Fees

Cacciamatta Accountancy Corporation billed us $0 and $0 in fees for assurance and related services related to the performance of the audit or review of our financial statements for the fiscal years ended September 30, 2011 and September 30, 2010, respectively.

Tax Fees

The aggregate fees to be billed by Cacciamatta Accountancy Corporation for professional services rendered for tax compliance, tax advice, and tax planning during our fiscal years ending September 30, 2011 and September 30, 2010 were $0 and $0, respectively.

All Other Fees

None.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.

(a) 1. The information required by this item is included in Item 8 of Part II of this Annual Report.

2. The information required by this item is included in Item 8 of Part II of this Annual report.

3. Exhibits: See Exhibit Index following the signature pages to this Annual Report, which is incorporated by reference in this Item. The Exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report.

(b) Exhibits. See Exhibit Index, which is incorporated by reference in this Item. The Exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report.

(c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNS RESPONSE, INC.

By: /s/ George Carpenter
George Carpenter
Chief Executive Officer

Date: December 21, 2011

POWER OF ATTORNEY

The undersigned directors and officers of CNS Response, Inc. do hereby constitute and appoint George Carpenter and Paul Buck with full power of substitution and resubstitution, as their true and lawful attorneys and agents, to do any and all acts and things in their name and behalf in their capacities as directors and officers and to execute any and all instruments for them and in their names in the capacities indicated below, which said attorneys and agents, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for them or any of them in their names in the capacities indicated below, any and all amendments hereto, and they do hereby ratify and confirm all that said attorneys and agents, or either of them, may lawfully do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/George Carpenter George Carpenter	Chief Executive Officer, Director (Principal Executive Officer)	December 21, 2011
/s/Paul Buck Paul Buck	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	December 21, 2011
/s/David B. Jones David B. Jones	Director	December 9, 2011
/s/Henry T. Harbin Henry T. Harbin, M. D.	Director	December 9, 2011
/s/John Pappajohn John Pappajohn	Director	December 21, 2011
/s/George Kallins George Kallins, M.D.	Director	December 9, 2011
/s/Zachary McAdoo Zachary McAdoo	Director	December 12, 2011

EXHIBIT INDEX

Exhibit Number	Exhibit Title
2.1	Agreement and Plan of Merger between Strativation, Inc., CNS Merger Corporation and CNS Response, Inc. dated as of January 16, 2007. Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 22, 2007.
2.2	Amendment No. 1 to Agreement and Plan of Merger by and among Strativation, Inc., CNS Merger Corporation, and CNS Response, Inc. dated as of February 28, 2007. Incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 1, 2007.
3.1	Certificate of Incorporation, as amended.
3.2	Bylaws, as amended.
4.1	Amended and Restated 2006 Stock Incentive Plan. Incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A (File No. 000-26285) filed with the Commission on April 1, 2010.*

Exhibit Number	Exhibit Title
10.1	Amended and Restated Registration Rights Agreement, dated January 16, 2007 by and among the Registrant and the stockholders signatory thereto. Incorporated by reference to Exhibit No. 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 16, 2007.
10.2	Form of Subscription Agreement between the Registrant and certain investors, dated March 7, 2007. Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.3	Form of Indemnification Agreement by and among the Registrant, CNS Response, Inc., a California corporation, and certain individuals, dated March 7, 2007. Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.4	Form of Registration Rights Agreement by and among the Registrant and certain Investors signatory thereto dated March 7, 2007. Incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.5	Form of Registration Rights Agreement by and among the Registrant and certain stockholders of the Company signatory thereto dated March 7, 2007. Incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.6	Employment Agreement by and between the Registrant and George Carpenter dated October 1, 2007. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on October 3, 2007.*
10.7	Employment Agreement by and between the Registrant and Daniel Hoffman dated January 11, 2008. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 17, 2008.*
10.8	Stock Purchase Agreement by and among Colorado CNS Response, Inc., Neuro-Therapy, P.C. and Daniel A. Hoffman, M.D. dated January 11, 2008. Incorporated by reference to the Registrant's Annual Report on Form 10-K (File No. 000-26285) filed with the Commission on January 13, 2009.
10.9	Form of Warrant issued to Investors in Private Placement. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.10	Senior Secured Convertible Promissory Note, dated March 30, 2009, by and between the Company and Brandt Ventures, GP. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on April 3, 2009.
10.11	Senior Secured Convertible Promissory Note, dated March 30, 2009, by and between the Company and SAIL Venture Partners, LP. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on April 3 2009.
10.12	Bridge Note and Warrant Purchase Agreement, dated May 14, 2009 by and between the Company and SAIL Venture Partners, LP. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on May 20, 2009.

Exhibit Number	Exhibit Title
10.13	Form of Secured Convertible Promissory Note. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on May 20, 2009.
10.14	Form of Warrant to Purchase Shares. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on May 20, 2009.
10.15	Bridge Note and Warrant Purchase Agreement, dated June 12, 2009, by and between the Company and John Pappajohn. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on June 18, 2009.
10.16	Form of Secured Convertible Promissory Note. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on June 18, 2009.
10.17	Form of Warrant to Purchase Shares. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on June 18, 2009.
10.18	Form of Subscription Agreement. Incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 30, 2009.
10.19	Form of Warrant. Incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 30, 2009.
10.20	Registration Rights Agreement. Incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 30, 2009.
10.21	Amendment No. 1 to Registration Rights Agreement. Incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 30, 2009.
10.22	Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 30, 2009.
10.23	Employment Agreement by and between the Registrant and Paul Buck effective as of February 18, 2010. Incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on July 6, 2010.*
10.24	Consulting Agreement by and among CNS Response, Inc. and Henry T. Harbin, effective January 1, 2010. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File Number 000-26285) filed with the Securities and Exchange Commission on May 14, 2010.
10.25	Bridge Note and Warrant Purchase Agreement, dated as of June 3, 2010, between CNS Response, Inc. and John Pappajohn. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on June 7, 2010.

Exhibit Number	Exhibit Title
10.26	Form of Note. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on June 7, 2010.
10.27	Form of Warrant. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on June 7, 2010.
10.28	Placement Agent Agreement dated August 3, 2009 between the Registrant and Maxim Group LLC. Incorporated by reference to Exhibit 10.28 to the Registrant's Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on July 6, 2010.
10.29	Form of Warrant issued to Placement Agent. Incorporated by reference to Exhibit 10.29 to the Registrant's Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on July 6, 2010.
10.30	Registration Rights Agreement dated August 26, 2009 between the Registrant and Maxim Group, LLC. Incorporated by refrence to Exhibit 10.30 to the Registrant's Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on November 8, 2010.
10.31	Amendment No.1 to Placement Agent Agreement dated July 21, 2010 between the Registrant and Maxim Group LLC. Incorporated by refrence to Exhibit 10.31 to the Registrant's Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on November 8, 2010.
10.32	Amendment No.1 to Form of Warrant issued to Placement Agent dated July 23, 2010. Incorporated by refrence to Exhibit 10.32 to the Registrant's Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on November 8, 2010.
10.33	Form of Unsecured Promissory Note. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on July 9, 2010.
10.34	Form of Guaranty. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on July 9, 2010.
10.35	Form of Deerwood Note. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on August 24, 2010.
10.36	Form of Deerwood Warrant. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on August 24, 2010.
10.37	Engagement Agreement, dated September 30, 2010, between the Registrant and Monarch Capital Group, LLC, as Placement Agent. Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 13, 2010.
10.38	Form of Note and Warrant Purchase Agreement, dated October 1, 2010, by and between the Registrant and the Investors party thereto. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 7, 2010.
10.39	Security Agreement, dated October 1, 2010, by and between the Registrant and John Pappajohn, as administrative agent for the secured parties. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 7, 2010.
10.40	Form of October Note. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 7, 2010.
10.41	Form of October Warrant. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 7, 2010.

10.42	Form of Placement Agent Warrant issued to Monarch Capital Group, LLC. Incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 27, 2010.
10.43*	Employment Agreement, dated July 6, 2010, by and between the Registrant and Michael Darkoch. Incorporated by refrence to Exhibit 10.43 to the Registrant’s Registration Statement on Form S-1/A (File No. 333-164613) filed with the Commission on November 8, 2010.
10.44	Form of Guaranty, dated as of November 3, 2010, by SAIL Venture Partners, LP in favor of Deerwood Holdings, LLC/Deerwood Partners, LLC. Incorporated by reference to Exhibit 10.44 to the Registrant’s Annual Report on Form 10-K (File No. 000-26285) filed with the Commission on December 21, 2010.
10.45	Form of Note and Warrant Purchase Agreement, dated as of January 20, 2011, by and between the Registrant and the Investors party thereto. Incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on March 1, 2011.
10.46	Form of Subordinated Unsecured Convertible Promissory Note. Incorporated by reference to Exhibit 4.1 to the Registrant’s Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on March 1, 2011.
10.47	Form of Warrant. Incorporated by reference to Exhibit 4.2 to the Registrant’s Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on March 1, 2011.
10.48	Engagement Agreement, dated January 19, 2011, between the Registrant and Monarch Capital Group, LLC. Incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on March 1, 2011.
10.49	Form of Placement Agent Warrant. Incorporated by reference to Exhibit 4.3 to the Registrant’s Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on March 1, 2011.
10.50	Form of Agreement to Convert and Amend, dated as of June 3, 2011, between the Registrant and the holders of the October Notes and related warrants and of the Unsecured Notes and related warrants. Incorporated by reference to Exhibit 10.50 to the Registrant’s Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on June 20, 2011.
10.51	Form of Agreement to Amend Placement Agent Warrants, dated as of June 3, 2011, between the Registrant and the holders of the Placement Agent Warrants issued pursuant to the September 30, 2010 and January 19, 2011 engagement agreements between the Registrant and Monarch Capital Group LLC and the April 15, 2011 engagement agreement between the Registrant and Antaeus Capital, Inc. Incorporated by reference to Exhibit 10.51 to the Registrant’s Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on June 20, 2011.
10.52	Form of Agreement to Amend Warrants issued to staff members of Equity Dynamics for consulting and support services, dated as of June 8, 2011. Incorporated by reference to Exhibit 10.52 to the Registrant’s Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on June 20, 2011.
10.53	Form of Amendment to Stock Option Agreement. Incorporated by reference to Exhibit 10.53 to the Registrant’s Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on June 20, 2011.
10.54	Form of Amendment and Conversion Agreement for the Secured Convertible Promissory Notes between the Registrant and the holders signatory thereto.
10.55	Form of Amendment and Conversion Agreement for the Subordinated Unsecured Convertible Promissory Notes between the Registrant and the holders signatory thereto.

10.56	Form of Note and Warrant Purchase Agreement, dated as of October 18, 2011, by and between the Registrant and the Investors party thereto. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 24, 2011.
10.56.1	Form of Amended and Restated Note and Warrant Purchase Agreement, dated November 11, 2011.
10.57	Form of Amended and Restated Security Agreement, dated as of September 30, 2011, by and between the Registrant and Paul Buck, as administrative agent for the secured parties. Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 24, 2011.
10.58	Form of Subordinated Secured Convertible Promissory Note.
10.59	Form of Warrant. Incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on October 24, 2011.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (included in the signature page hereto)
31.1	Certification by Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification by Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

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* Indicates a management contract or compensatory plan.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

CERTIFICATE OF OWNERSHIP AND MERGER
MERGING
CNS RESPONSE, INC.,
(A DELAWARE CORPORATION)
WITH AND INTO
STRATIVATION, INC.,
(A DELAWARE CORPORATION)
(UNDER SECTION 253 OF THE GENERAL CORPORATION LAW OF THE STATE OF DELAWARE)

The undersigned, on behalf of Strativation, Inc., a corporation duly organized and existing under the laws of the State of Delaware:

DOES HEREBY CERTIFY:

FIRST: Strativation, Inc. (the "COMPANY"), was incorporated on the 20th day of March, 1987 pursuant to the General Corporation Law of the State of Delaware (the "DGCL"), the provisions of which permit the merger of one or more subsidiary corporations organized and existing under the laws of said State into a parent corporation organized and existing under the laws of said State.

SECOND: The Company owns 100% of the issued and outstanding shares of the common stock of CNS Response, Inc. ("MergerCo"), a corporation incorporated on the 19th day of January, 2007 pursuant to the DGCL, and having no class of stock outstanding other than such common stock.

THIRD: That the Company, by the following resolutions adopted by its Board of Directors, duly adopted by unanimous written consent of the members thereof on February 2, 2007, determined to merge MergerCo into itself, effective as set forth below:

WHEREAS, the Company lawfully owns 100% of the issued and outstanding shares of the common stock of CNS Response, Inc., a Delaware corporation ("MERGERCO");

WHEREAS, MergerCo has no class of stock outstanding other than common stock; and

WHEREAS, there has been presented a form of Certificate of Ownership and Merger, and certain other agreements and other writings (collectively, the "MERGER DOCUMENTS") to accomplish the merger of MergerCo into the Company pursuant to Section 253 of the General Corporation Law of the State of Delaware ("MERGER");

WHEREAS, pursuant to the Merger, the separate existence of MergerCo shall cease, the outstanding capital stock of MergerCo shall be cancelled, and the Company shall assume of all of the obligations and liabilities of MergerCo and shall be subject to all the debts and liabilities of MergerCo in the same manner as if the Company had itself incurred them, and each share of the capital stock of the Company shall remain outstanding and unaffected; and

WHEREAS, upon the effective date of the Merger, the Company shall relinquish its corporate name and assume in its place thereof the name of MergerCo, which is "CNS Response, Inc." ("NAME CHANGE");

NOW, THEREFORE, BE IT RESOLVED, that the Merger including the Name Change and assumption of all of the obligations and liabilities of MergerCo by the Company and the transactions contemplated under the Merger Documents are hereby adopted and approved;

RESOLVED FURTHER, that the forms, terms and provisions of the Merger Documents are hereby adopted and approved;

RESOLVED FURTHER, upon the proposed Merger becoming effective and without any action on the part of any holder thereof each outstanding share of the common stock of MergerCo shall be cancelled without consideration therefor;

RESOLVED FURTHER, that the officers of the Company, and each of them, are hereby authorized and directed to cause the Company to perform its obligations under the Merger Documents and to consummate the transactions contemplated thereby, including the Name Change;

RESOLVED FURTHER, that the officers of the Company, and each of them, are hereby authorized, for and on behalf of the Company, to modify, amend or revise the forms, terms and provisions of the Merger Documents, to execute, deliver and/or file any and all documents, certificates, instruments, agreements and notices, and to perform or cause to be performed any and all acts as may, in their judgment, be necessary or desirable to accomplish the purposes of the foregoing resolutions and the transactions contemplated thereby and the Merger Documents therein approved whether within or without the State of Delaware and any other state necessary, the making of any such modification, amendment or revision, the taking of any such actions and/or the execution, delivery or filing of any such documents or instruments shall be conclusive evidence that the individual making such modification, amendment or revision, taking such action and/or executing, delivering or filing such document or instrument has deemed the same to be necessary or advisable;

RESOLVED FURTHER, that the officers of the Company, and each of them, are hereby authorized, directed and empowered by and on behalf of the Company to cause any notice required by the securities laws of any state or jurisdiction to be prepared and filed on behalf of the Company with the appropriate securities regulatory agency together with any required consent to service of process and the payment of any requisite fee; and

RESOLVED FURTHER, that the actions of the officers and other agents of the Company and each of them, previously taken in connection with the negotiation of the Merger and/or the preparation of the forms, terms and provisions of the Merger Documents are hereby adopted and approved.

"FOURTH: That the proposed Merger has been adopted approved, certified, executed and acknowledged by the Company and the board of directors of MergerCo in accordance with the laws of Delaware.

FIFTH: The merger is effective upon filing of this Certificate of Ownership and Merger.

IN WITNESS WHEREOF, the Company has caused this Certificate to be signed by an authorized officer this 6th day of March, 2007.

STRATIVATION, INC.
a Delaware corporation

By: /s/ Leonard J. Brandt
Leonard J. Brandt, President

STATE OF DELAWARE
CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF INCORPORATION
OF STRATIVATION, INC.

Strativation, Inc, (the "Corporation") a corporation organized and existing under and by virtue of the Delaware General Corporation Law ("DGCL") does hereby certify:

FIRST: That the Board of Directors of the Corporation, by the unanimous written consent of its members, filed with the minutes of the Board, adopted resolutions proposing and declaring advisable the following amendments to the Certificate of Incorporation of the Corporation:

RESOLVED FURTHER, that to effectuate the Reverse Split, Article Fourth of the Certificate of Incorporation, as amended and in effect on the date hereof (the "Certificate of Incorporation"), be amended by adding the following paragraphs thereto:

> "Upon the date that this Certificate of Amendment to the Certificate of Incorporation of the Corporation becomes effective in accordance with the General Corporation Law of the State of Delaware (the "Effective Date"), each fifty (50) shares of common stock, par value $0.001 per share ("Old Common Stock"), of the Corporation issued and outstanding immediately prior to the Effective Date shall be, without any action of the holder thereof, automatically reclassified as and converted into one (1) share of common stock, par value $0.001 per share ("New Common Stock"), of the Corporation,
>
> "Notwithstanding the immediately preceding paragraph, no fractional shares of New Common Stock shall be issued to the holders of record of Old Common Stock in connection with the foregoing reclassification of shares of Old Common Stock, and no certificates or scrip representing any such fractional shares shall be issued. In lieu of such fraction of a share, any holder of such fractional share shall be entitled receive one whole share of the New Common Stock.
>
> "Each stock certificate that, immediately prior to the Effective Date, represented shares of Old Common Stock shall, from and after the Effective Date, automatically and without the necessity of presenting the same for exchange, represent that number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified. A letter of transmittal will provide the means by which each holder of record of a certificate that represented shares of Old Common Stock shall receive, upon surrender of such certificate, a new certificate representing the number of whole shares of New Common Stock into which the shares of Old Common Stock represented by such certificate shall have been reclassified."

SECOND: That in lieu of a meeting and vote of the stockholders of the Corporation, pursuant to Section 228 of the DGCL, a written consent setting forth resolutions approving the amendments set forth above was signed by the holders of outstanding common stock having not less than the minimum number of votes necessary to authorize or take action at a meeting at which all shares entitled to vote thereon were present and voted, and written notice of the adoption and approval of the amendments has been given as provided in Section 228 of the DGCL to every stockholder entitled to such notice.

THIRD: That the foregoing amendment of the Certificate of Incorporation was duly adopted in accordance with the provisions of Section 242 of the DGCL.

[Remainder of Page Intentionally Left Blank, Signature Page Follows]

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed on this 29th day of December, 2006.

STRATIVATION, INC.

By: /s/ Silas Phillips
Silas Phillips
Chief Executive Officer

STATE OF DELAWARE

CERTIFICATE OF ADMENDMENT

OF CERTIFICATE OF INCORPORATION

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:FIRST: That at a meeting of the Board of Directors of Salestactix, Inc. resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as

follows:

RESOLVED, that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered “I” so that, as amended, said Article shall be and read as follows:

ARTICLE I

“The name of this corporation is Strativation, Inc.”

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Corporation has caused this Certificate to be signed by its duly authorized officer, this 7th day of September, 2005.

/s/ SCOTT ABSHER
Scott W. Absher
President

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
AGE RESEARCH, INC.,
a Delaware corporation

It is hereby certified that:

1. The name of the corporation (hereinafter called the “Corporation”) is Age Research, Inc.

2. The Certificate of Incorporation of the Corporation is hereby amended as follows:

Article I. of the Certificate of Incorporation is hereby amended in its entirety to read as follows:

ARTICLE I.

“The name of this corporation is SalesTactix, Inc.”

3. The foregoing amendment was adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by its duly authorized officer, this 28th day of July, 2004.

/s/ Vincent Michael Keyes, III
Vincent Michael Keyes, III, President

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
AGE RESEARCH, INC.,
a Delaware corporation

It is hereby certified that:

1. The name of the corporation (hereinafter called the “Corporation”) is Age Research, Inc.

2. The Certificate of Incorporation of the Corporation is hereby amended as follows:

Article IV of the Certificate of Incorporation is hereby amended in its entirety to read as follows:

ARTICLE IV

The amount of total authorized capital stock of this Corporation is Seven Hundred Fifty Thousand Dollars ($750,000) divided into 750,000,000 shares of $0.001 par value each. All shares shall be designated as Common Stock. Stockholders shall not have preemptive rights or be entitled to cumulative voting in connection with the shares of the Company’s Common Stock.

Upon the effectiveness of the certificate of amendment to the Certificate of Incorporation containing this sentence (the “Split Effective Date”), shares of the Common Stock issued and outstanding as of the date and time immediately preceding the Split Effective Date shall be automatically changed and reclassified in accordance with an exchange ratio of one newly issued share for each thirty-five outstanding shares of Common Stock. There shall be no fractional shares issued. A holder of record of Common Stock on the Split Effective Date who would otherwise be entitled to a fraction of a share shall have the number of new shares to which they are entitled rounded to the nearest whole number of shares. The number of new shares will be rounded up if the fractional share is equal to or greater than 0.5 and rounded down if the fraction is less than 0.5. No shareholders will receive cash in lieu of fractional shares.

3. The foregoing amendment was adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

In witness whereof, Richard F. Holt, has caused this Certificate to be signed by its duly authorized officer, this 1st day of June, 2004.

/s/ Richard F. H

Richard F. Holt, President

CERTIFICATE OF OWNERSHIP AND MERGER
VOLT RESEARCH, INC.
A UTAH CORPORATION
INTO
AGE RESEARCH, INC.
A DELAWARE CORPORATION

(Pursuant to the General Corporation Law of the State of Delaware)

Certificate of Ownership and Merger dated April 27, 1987, executed by Volt Research, Inc., a Utah corporation, hereinafter referred to as the "Utah Corporation", and Age Research, Inc., a Delaware corporation, hereinafter referred to as the "Delaware Corporation" and/or "Surviving Corporation".

The Utah Corporation and the Delaware Corporation do hereby certify:

1. The Utah Corporation Organized Pursuant to Utah Law

. The Utah Corporation was organized pursuant to the Corporation Law of the State of Utah on July 10, 1984, which law permits the merger of a Utah corporation with a corporation organized under the laws of another state.

2. Ownership of the Delaware Corporation Shares

. The Utah Corporation owns all of the issued and outstanding shares of the Delaware Corporation, a corporation incorporated March 20, 1987, pursuant to General Corporation Law of the State of Delaware.

3. Director Approval and Resolutions of the Utah Corporation

. On April 27, 1987, the directors of the Utah Corporation, have duly adopted by the unanimous written consent of its members, filed with the minutes of the board, the 'following resolutions:

> RESOLVED, that the Utah Corporation shall merge, and it does hereby merge itself into the Delaware Corporation, its wholly owned subsidiary which assumes all of the obligations of the Utah Corporation. Be it
>
> FURTHER RESOLVED, that the merger shall be effective upon filing a Certificate of Ownership and Merger with the Secretary of State of Delaware. Be it
>
> FURTHER RESOLVED, that the terms and conditions of the merger are as set forth in the Plan and Agreement of Merger. Be it

FURTHER RESOLVED, that the proper officers of the Utah Corporation be, and they hereby are, directed to make and execute a Certificate of Ownership and Merger setting forth a copy of the resolutions to merge itself into the Delaware Corporation and to cause the same to be filed with the Secretary of State of Delaware and a certified copy recorded in the Office of the Recorder of deeds of New Castle County and to do all acts and things whatsoever, whether within or without the State of Delaware, which may be necessary or proper to effect said merger.

4. Shareholder Vote

. On April 27, 1987, at a special meeting of shareholders of the Utah Corporation, held pursuant to twenty (20) day notice to shareholders of record, at which a quorum was present in person or by proxy, the majority of the shareholders of the Utah Corporation approved the Plan and Agreement of Merger.

5. Separate Existence; Surviving Corporation

. At the effective time of the merger, the separate existence of the Utah Corporation shall cease and the Utah Corporation shall be merged in accordance with the applicable provision of the Utah Business Corporations Act and the General Corporation Law of Delaware, into the Delaware Corporation, which shall be the Surviving Corporation.

6. Governing Law

. The laws which are to govern the Surviving Corporation, the Delaware Corporation, are the laws of the State of Delaware. The Certificate of Incorporation of the Delaware Corporation shall be the Certificate of Incorporation of the Surviving Corporation, the Delaware Corporation, until the same shall be altered or amended in accordance with the laws of the State of Delaware.

7. Directors and Officers

. The directors and officers of the Delaware Corporation, at the time of the merger, shall be the directors and officers of the Surviving Corporation and shall be as follows:

Martin A. Voet	President/Director
Richard F. Holt, Jr.	Secretary/Treasurer/Director
Rollin Green, M.D.	Director
Roger Green, M.D.	Director

8. Effect of Merger. At the effective time of the merger, the Surviving Corporation, the Delaware Corporation, shall retain or succeed to, without other transfer, and shall possess and enjoy all rights, privileges, immunities, powers, purposes and franchises and be subject to all the restrictions, disabilities and duties of each corporation. All property, both real and personal, tangible and intangible and all debts due to either corporation shall be vested in the Surviving Corporation. All debts, liabilities and duties of either corporation shall be the responsibility of and enforceable against the Surviving Corporation as if said debts, liabilities and duties had been incurred or contracted by the Surviving Corporation.

IN WITNESS WHEREOF, this Certificate has been signed by each of the Corporations which are the parties hereto this 27 day of April, 1987.

AGE RESEARCH, INC.
a Delaware corporation

By: /s/ Martin A. Voet
Martin A. Voet, President

Attest:

By: /s/ Richard F. Holt
Richard F. Holt, Jr.
Secretary

VOLT RESEARCH, INC.
a Utah corporation

By: /s/ Martin A. Voet
Martin A. Voet, President

Attest:

By: /s/ Richard F. Holt
Richard F. Holt, Jr.
Secretary

State of California)
) ss.
County of Orange)

On the 27 day of April, 1987, personally appeared before me, a Notary Public, Martin A. Voet, the president, and Richard F. Holt, the secretary, of Volt Research, Inc., a Utah corporation, and of Age Research, Inc., a Delaware corporation, who duly acknowledged to me that they executed this Agreement pursuant to a Resolution of the Board of Directors of said corporations and shareholder approval thereof.

/s/ Margaret Howe
Notary Public
Residing at Laguna Niguel

My Commission expires: 9/30/88

CERTIFICATE OF
INCORPORATION
OF
AGE RESEARCH, INC.

ARTICLE I

The name of the Corporation is AGE RESEARCH, INC.

ARTICLE II

The registered office of the Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware, County of New Castle. The registered agent in charge thereof at such address is The Corporation Trust Company.

ARTICLE III

The nature of the business, and the objects and purposes proposed to be transacted, promoted and carried on, are to do any or all things herein mentioned, as fully and to the same extent as natural persons might or could do, and in any partof the world, viz.:

"The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware."

ARTICLE IV

The amount of the total authorized capital stock of this Corporation is One Hundred Thousand Dollars ($100,000) divided into 100,000,000 shares of $.001 par value each. All shares shall be designated as Common Stock. Shareholders shall not have preemptive rights or be entitled to cumulative voting in connection with the shares of the Company's Common Stock.

ARTICLE V

The name and mailing address of the incorporator of the Company is:

Richard F. Holt	26081 Avenida Aeropuerto, Suite E-1 San Juan Capistrano, CA 92675
Martin A. Voet	26081 Avenida Aeropuerto, Suite E-1 San Juan Capistrano, CA 92675
Rollin Green, M.D.	26081 Avenida Aeropuerto, Suite E-1 San Juan Capistrano, CA 92675

ARTICLE VI

The powers of the incorporator(s) shall terminate upon the filing of this Certificate of Incorporation, and the names and mailing addresses of the persons to serve as directors until the first- annual meeting of stockholders or until successors are elected and quality are:

Name of Director	Mailing Address
Richard F. Holt	26081 Avenida Aeropuerto, Suite E-1 San Juan Capistrano, CA 92675
Martin A. Voet	26081 Avenida Aeropuerto, Suite E-1 San Juan Capistrano, CA 92675
Rollin Green, M.D.	26081 Avenida Aeropuerto, Suite E-1 San Juan Capistrano, CA 92675

The number of members of the Board of Directors shall be fixed from time to time by the Board of Directors. If any vacancy occurs, the remaining directors, by an affirmative vote of a majority thereof, may elect a director to fill the vacancy until the next annual meeting of stockholders.

ARTICLE VII

No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board of committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

1. The material facts as to his interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the Committee, and the Board or committee in good faith authorizes the contract or transaction by a vote sufficient for such purpose without counting the vote of the interested director or directors; or

2. The material facts as to his interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

3. The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof, or the stockholders. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE VIII

The Board of Directors shall have the power to make, adopt, amend or repeal the Bylaws of the Corporation.

ARTICLE IX

Section 1. Elimination of Certain Liability of Directors. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law (iii) under Section 74 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

Section 2. Indemnification and Insurance.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation-to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph (b) hereof, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

(b) Right of Claimant to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within 30 days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard or conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard or conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

(d) Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

The undersigned, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file and record this certificate, and do certify that the facts stated herein are true; and have executed this Certificate of Incorporation.

Dated: 3/17, 1987.

/s/ Richard F. Holt

/s/ Martin A. Voet

/s/ Rollin Green, M.D.

STATE OF Utah)
)ss.
COUNTY OF Salt Lake)

On the 17th day of March, 1987, personally appeared before me, Richard F. Holt, who being by me first duly sworn, declared that he is the person who signed the foregoing document as an incorporator and that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my
hand and seal this 17th day of March, 1987.

/s/ sic., NOTARY PUBLIC

Residing at Salt Lake

My Commission expires: 3/21/07

STATE OF Utah)
)ss.
COUNTY OF Salt Lake)

On the 17th day of March, 1987, personally appeared before me, Martin A. Voet, who being by me first duly sworn, declared that he is the person who signed the foregoing document as an incorporator and that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my
hand and seal this 17th day of March, 1987.

/s/ A.O. Headman, NOTARY PUBLIC
Residing at Salt Lake
My Commission expires: 3/21/07

STATE OF California)
)ss.
COUNTY OF Orange)

On the 16th day of March, 1987, personally appeared before me, Rolin Green, M.D., who being by me first duly sworn, declared that he is the person who signed the foregoing document as an incorporator and that the statements therein contained are true.

IN WITNESS WHEREOF, I have hereunto set my
hand and seal this 16th day of March, 1987.

/s/ sic., NOTARY PUBLIC______________________
Residing at El Toro, CA
My Commission expires: 6-2-89

AMENDMENT NO. 2 TO
BYLAWS
OF
CNS RESPONSE, INC.

The Bylaws (the "BYLAWS") of CNS Response, Inc., a Delaware corporation (the "CORPORATION") formerly known as "Age Research, Inc.," are hereby amended as follows:

1. Section 2.2 of Article 2 of the Bylaws is amended and restated in its entirety to read as follows:

"2.2 Number; Election and Qualification. Unless otherwise provided in the certificate of incorporation, the number of directors which shall constitute the whole board of directors shall be determined by resolution of the stockholders or the board of directors,- but in no event shall be less than three. Unless otherwise provided in the certificate of incorporation, the number of directors may be decreased at any time and from time to time either by the stockholders or by a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more directors. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote in such election. Directors need not be stockholders of the corporation."

2. Except as set forth above, the remaining provisions of the Bylaws shall not be amended hereby and shall remain in full force and effect in accordance with their respective terms.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

(1) that I am the duly elected and acting Secretary of CNS Response, Inc., a Delaware corporation (the "CORPORATION"); and

(2) that the foregoing amendment to the Corporation's Bylaws, constituting one (1) page, has been duly adopted by the Board of Directors of the Corporation at a duly noticed meeting held on July 20, 2009.

IN WITNESS WHEREOF, I have hereunto subscribed my name as of this 22nd day of July, 2009.

/s/ George Carpenter
George Carpenter, Secretary

AMENDMENT NO. 1 TO
BYLAWS
OF
CNS RESPONSE, INC.

The Bylaws (the "BYLAWS") of CNS Response, Inc., a Delaware corporation (the "CORPORATION") formerly known as "Age Research, Inc.," are hereby amended as follows:

1. Section 1.2 of Article 1 of the Bylaws is amended and restated in its entirety to read as follows:

"1.2 Annual Meetings. The annual meeting of stockholders for the election or directors and for the transaction of such other business as may properly be brought before the meeting, shall be held on the second Tuesday of the third month after the end of the Corporation's fiscal year, at a time fixed by the board of directors or the president. If this date shall fall upon a legal holiday, then such meeting shall be held on the next succeeding business day at the same hour. If no annual meeting is held in accordance with the foregoing provisions, the board of directors shall either (i) cause the annual meeting to be held as soon thereafter as convenient or (ii) cause a special meeting to be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these Bylaws to the annual meeting of the stockholders shall be deemed to refer to such special meeting. The power to call annual meetings of stockholders or special meetings of stockholders in lieu of annual meetings is reserved and vested in the board of directors only; the rights of the stockholders of the Corporation to request the calling of a special meeting pursuant to Section 1.3 of the Bylaws shall not apply to this Section 1.2."

2. Section 1.3 of Article 1 of the Bylaws is amended and restated in its entirety to read as follows:

"1.3 Special Meetings. Special meetings of stockholders may be called at any time by the chairman of the board of directors or by the board of directors. In addition, the record holders of not less than twenty-five percent (25%) of the issued and outstanding shares entitled to vote at an annual meeting of stockholders may at any time submit a written request to the Board for the calling of a special meeting of stockholders. Such written request shall specify (i) the name and address of the stockholder or stockholders making the request, (ii) the number of shares held by each such stockholder and (iii) the proposal or proposals to be presented at the special meeting. Promptly following the receipt of a proper request under this Section 1.3, the board of directors shall take the necessary steps under the certificate of incorporation, the Bylaws, applicable Delaware and applicable federal securities laws to call a special meeting of the stockholders to be held within a reasonable period of time after such written stockholder request, taking into account all applicable laws and legal requirements imposed on the Corporation in connection with the calling and conduct of a special meeting. To the extent that applicable laws and legal requirements require information to be provided to the Corporation's stockholders with respect to the requested special meeting or the matters to be acted on at the requested special meeting, the board's obligations to the requesting stockholder(s) as set forth in this Section 1.3 are conditioned upon the cooperation of such requesting stockholder(s) in providing such information and assisting the Corporation in complying with all applicable laws and legal requirements."

3. Except as set forth above, the remaining provisions of the Bylaws shall not be amended hereby and shall remain in full force and effect in accordance with their respective terms.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

(1) that I am the duly elected and acting Secretary of CNS Response, Inc., a Delaware corporation (the "CORPORATION"); and

(2) that the foregoing amendment to the Corporation's Bylaws, constituting one (1) page, has been duly adopted by the Board of Directors of the Corporation at a duly noticed meeting held on June 26, 2009.

IN WITNESS WHEREOF, I have hereunto subscribed my name as of this 30th day of June, 2009.

/s/ George Carpenter

George Carpenter, Secretary

BYLAWS
OF
AGE RESEARCH, INC.

ARTICLE 1 - Stockholders

1.1 Place of Meetings. All meetings of stockholders shall be held at such place within or without the State of Delaware as may be designated from time to time by the board of directors or the president or, if not so designated, at the registered office of the corporation.

1.2 Annual Meetings. The annual meeting of stockholders for the election or directors and for the transaction of such other business as may properly be brought before the meeting, shall be held on the second Tuesday of the third month after the end of the Corporation's fiscal year, at a time fixed by the board of directors or the president. If this date shall fall upon a legal holiday, then such meeting shall be held on the next succeeding business day at the same hour. If no annual meeting is held in accordance with the foregoing provisions, the board of directors shall cause the meeting to be held as soon thereafter as convenient or a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these Bylaws to the annual meeting of the stockholders shall be deemed to refer to such special meeting.

1.3 Special Meetings. Special meetings of stockholders may be called at any time by the chairman of the board of directors, by the board of directors or by the holders of not less than one- (1/4) of all the shares entitled to vote at the meeting. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

1.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notices of all meetings shall state the place, date and hour of the meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called.

1.5 Voting List. The officer who has charge of the stock ledger of the Corporation shall prepare, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder.

1.6 Quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the holders of a majority of the shares of the capital stock of the Corporation issued and outstanding are entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business.

1.7 Adjournments. Any meeting of stockholders may be adjourned to any other time and to any other place at which a meeting of stockholders may be held under these Bylaws by the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as secretary of such meeting. If the adjournment is for more than 30 days, or if after the adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting.

1.8 Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held, unless otherwise provided in the Certificate of Incorporation. Each stockholder of record entitled to vote at a meeting of stockholders, or to express consent or dissent to corporate action in writing without a meeting, may vote or express such consent or dissent in person or may authorize another person or persons to vote or act for him by written proxy executed by the stockholder or his authorized agent and delivered to the secretary of the Corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. No proxy shall be voted or acted upon after three years from the date of its execution, unless the proxy expressly provides for a longer period.

1.9 Action at Meeting. When a quorum is present at any meeting, the holders of a majority of the stock present or represented and voting on a matter (or if there are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the holders of a majority of the stock of that class present or represented and voting on a matter) shall decide any matter to be voted upon by the stockholders at such meeting, except when a different vote is required by express provision of law, the Certificate of Incorporation or these Bylaws. Any election by stockholders shall be determined by a plurality of the votes cast by the stock holders entitled to vote at the election.

1.10 Action Without Meeting. Any action required or permitted to be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on such action were present and voted. Prompt notice of the taking of corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE 2 - Directors

2.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of a board of directors, who may exercise all of the powers of the Corporation except as otherwise provided by law, the Certificate of Incorporation or these Bylaws. In the event of a vacancy on the board of directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full board of directors until the vacancy is filled.

2.2 Number; Election and Qualification. The number of directors which shall constitute the whole board of directors shall be determined by resolution of the stockholders or the board of directors,- but in no event shall be less than three. The number of directors may be decreased at any time and from time to time either by the stockholders or by a majority of the directors then in office, but only to eliminate vacancies existing by reason of the death, resignation, removal or expiration of the term of one or more directors. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote in such election. Directors need not be stockholders of the corporation.

2.3 Enlargement of the Board. The number of directors may be increased at any time and from time to time by the stockholders or by a majority of the directors then in office.

2.4 Tenure. Each director shall hold office until the next annual meeting and until such time as his successor is elected and qualified, or until his earlier death, resignation or removal.

2.5 Vacancies. Unless and until filled by the stockholders, any vacancy in the board of directors, however occurring, including a vacancy resulting from an increase in the number of directors, may be filled by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office, and a director chosen to fill a position resulting from an increase in the number of directors shall hold office until the next annual meeting of stockholders and until his successor is elected and qualified, or until his earlier death, resignation or removal.

2.6 Resignation. Any director may resign by delivering his written resignation to the Corporation at its principal office or to the secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

2.7 Regular Meetings. Regular meetings of the board of directors may be held without notice at such time and place, either within or without the State of Delaware, as shall be determined from time to time by the board of directors, provided that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the board of directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.8 Special Meetings. Special meetings of the board of directors may be held at any time and place, within or without the State of Delaware, designated in a call by the chairman of the Board, president or two or more directors, or by one director in the event that there is only a single director in office.

2.9 Notice or Special Meetings. Notice of any special meeting of directors shall be given to each director by the secretary or one of the directors calling the meeting. Notice shall be duly given to each director (i) by giving notice to such director in person or by telephone at least 48 hours in advance of the meeting, (ii) by sending a telegram or telex, or delivering written notice by hand to his last known business or home address at least 48 hours in advance of the meeting, or (iii) by mailing written notice to his last known business or home address at least 72 hours in advance of the meeting. A notice or waiver of notice of a meeting of the board of directors need not specify the purpose of the meeting.

2.10 Meetings by Telephone Conference Calls. Directors or any members of any committee designated by the directors may participate in a meeting of the board of directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting.

2.11 Quorum. A majority of the whole board of directors shall constitute a quorum at all meetings of the board of directors. In the event one or more of the directors shall be disqualified to vote at any meting, then the required quorum shall be reduced by one for each such director so disqualified; provided, however, that in no case shall less than one-third (1/3) of the whole board of directors constitute a quorum. In the absence of a quorum at any such meeting, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

2.12 Action at Meeting. At any meeting of the board of directors at which a quorum is present, the vote of a majority of those present shall be sufficient to take any action, unless a different vote is specified by law, the Certificate of Incorporation or these Bylaws.

2.13 Action by Consent. Any action required or permitted to be taken at any meeting of the board of directors or of any committee of the board of directors may be taken without a meeting, if all members of the board of directors or committee, as the case may be, consent to the action in writing, and the written consents are filed with the minutes of proceedings of the board of directors or committee.

2.14 Removal. Any one or more or all of the directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors, except that (i) the directors elected by the holders of a particular class or series of stock may be removed without cause only by vote of the holders of a majority of the outstanding shares of such class or series and (ii) in the case of a corporation having cumulative voting, if less than the entire board is to be removed, no director may be removed without cause if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire board of directors.

2.15 Committees. The board of directors may, by resolution passed by a majority of the whole board of directors, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member of any meeting of the committee. In the absence or disqualification of a member-of a committee, the member or members of the committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors and subject to the provisions of the General Corporation Law of the State of Delaware, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Corporation and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in subsection (a) of Section 151 of the General Corporation Law of the State of Delaware, fix the designations and any of the preferences of rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the Bylaws of the Corporation; and, unless the resolution, Bylaws or Certificate of Incorporation expressly so provides, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger. Each such committee shall keep minutes and make such reports as the board of directors may from time to time request. Except as the board of directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these Bylaws for the board of directors.

2.16 Compensation of Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the board of directors may from time to time determine. No such payment shall preclude any director from serving the Corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

ARTICLE 3 - Officers

3.1 General. The officers of the Corporation shall consist of a chairman of the board, a president, a secretary, a treasurer and such other officers with such other titles as the board of directors may determine, including a vice chairman of the board, and one or more vice presidents, assistant treasurers, and assistant secretaries. The board of directors may appoint such other officers with such other powers and duties as it may deem appropriate.

3.2 Election. The chairman of the board, president, treasurer and secretary shall be elected annually by the board of directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the board of directors at such meeting or at any other meeting.

3.3 Qualification. No officer need by a stockholder. Any two or more offices may be held by the same person.

3.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, each officer shall hold office until his successor is elected and qualified, unless a different term is specified in the vote choosing or appointing him, or until his earlier death, resignation or removal.

3.5 Resignation and Removal. Any officer may resign by delivering his written resignation to the Corporation at its principal office or to the president or secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event. Any officer may be removed at any time, with or without cause, by vote of a majority of the entire number of directors then in office. Except as the board of directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 Vacancies. The board of directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of president, treasurer and secretary. Each such successor shall hold office for the unexpired term of his predecessor and until his successor is elected and qualified, or until his earlier death, resignation or removal.

3.7 Chairman of the Board and Vice Chairman of the Board. The chairman of the board of directors shall be the chief executive officer of the Corporation. Subject to the direction of the board of directors, the chairman of the board of directors shall have general charge and supervision of the business of the Corporation, and shall have full authority to take all lawful actions necessary to implement corporate and business policy established by the board of directors. In addition, the chairman of the board of directors shall perform such duties and possess such other powers as are assigned to him by the board of directors. Unless otherwise provided by the board of directors, the chairman of the board of directors shall preside at all meetings of the stockholders and the board of-directors. The board of directors may appoint a vice chairman of the board of directors who may, in the absence or disability of the chairman, perform the duties and exercise and powers of the chairman and perform such other duties and possess such other powers as from time to time are authorized by the board of directors.

3.8 President. The president shall be the chief operating officer of the Corporation and shall have charge and supervision of the day to day business operations of the Corporation, subject to the authority of the chairman of the board of directors and of the board of directors. Unless the board of directors or chairman of the board of directors shall otherwise direct, all executive officers of the Corporation shall report, directly or through their immediate superior officers, to the president. The president shall perform such other duties and shall have such other powers as the board of directors may from time to time prescribe.

3.9 Vice Presidents. The vice president shall perform such duties and shall have such powers as the board of directors, chairman of the board of directors or the president may from time to time prescribe. The vice president shall discharge the duties of the president when the president, for any reason, cannot discharge the duties of his office. He shall have such other powers and perform such other duties as shall be prescribed by the directors. Any assistant vice presidents shall perform such duties and possess such powers as the board of directors, the chairman of the board of directors, the president or the vice president may from time to time prescribe.

3.10 Secretary and Assistant Secretaries. The secretary shall perform such duties and shall have such powers as the board of directors, chairman of the board of directors or the president may from time to time prescribe In addition, the secretary shall perform such duties and have such powers as are incident to the office of the secretary, including without limitation, the duty and power to give notices of all meetings of stockholders and special meetings of the board of directors, to attend all meetings of stockholders and the board of directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal, if any, and to affix and attest to the same on documents. Any assistant secretary shall perform such duties and possess such powers as the board of directors, the chairman of the board of directors, the president or the secretary may from time to time prescribe. In the event of the absence, inability or refusal to act of the secretary, the assistant secretary (or if there be more than one, the assistant secretaries in the order determined by the board of directors) shall perform the duties and exercise the powers of the secretary. In the absence of the secretary or any assistant secretary at any meeting of stockholders or directors, the person presiding at the meeting shall designate a temporary secretary to keep a record of the meeting.

3.11 Treasurer and Assistant Treasurers. The treasurer shall perform such duties and shall have such powers as from time to time be assigned to him by the board of directors, the chairman of the board of directors or the president. In addition, the treasurer shall perform such duties and have such powers as are incident to the office of treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the Corporation, to deposit funds of the Corporation in depositories selected in accordance with these Bylaws, to disburse such funds as ordered by the board of directors, the chairman of the board of directors, the president or any vice president of the Corporation so authorized to act by specific authorization of the board of directors or chairman of the Directors, to make proper accounts of such funds, and to render, as required by the board of directors, chairman of the board of directors or president, statements of all such transactions and of the financial condition of the Corporation. The assistant treasurers shall perform' such duties and possess such powers as the board of directors, the chairman of the board of directors, the president or the treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the treasurer, the assistant treasurer (or if there shall be more than one, the assistant treasurers in the order determined by the board of directors) shall perform the duties and exercise the powers of the treasurer.

3.12 Salaries. Officers of the Corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the board of directors.

ARTICLE 4 - Capital Stock

4.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the Corporation or the whole or any part of any unissued balance of the authorized capital stock of the Corporation held in its treasury may be issued, sold, transferred or otherwise disposed of by vote of the board of directors in such manner, for such consideration and on such terms as the board of directors may determine.

4.2 Certificates of Stock. Every holder of stock of the Corporation shall be entitled to have a certificate, in such form as may be prescribed by law and by the board of directors, certifying the number and class of shares owned by him in the Corporation. Each such certificate shall be signed by, or in the name of the Corporation by the chairman or vice chairman, if any, of the board of directors, or the president or a vice president, and the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation. Any or all of the signatures on the certificate may be a facsimile. Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, the Bylaws, applicable securities laws or any agreement among any number of shareholders or among such holders and the Corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

4.3 Transfers. Except as otherwise established by rules and regulations adopted by the board of directors, and subject to applicable laws, shares of stock may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the Corporation or its transfer agent may reasonable require. Except as may be otherwise required by law, by the Certificate of Incorporation or by these Bylaws, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the Corporation in accordance with the requirements of these Bylaws.

4.4 Lost, Stolen or Destroyed Certificates. The Corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen or destroyed, upon such terms and conditions as the board of directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving such indemnity as the board of directors may require for the protection of the Corporation or any transfer agent or registrar.

4.5 Record Date. The board of directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders or to express consent (or dissent) to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than 60 days prior to any other action to which such record date relates. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary; shall be the day on which the first written consent is expressed. The record-date for determining stockholders for any other purpose shall be at the close of business on the date on which the board of directors adopts the resolution relating to such purpose. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE 5 - Indemnification

The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as that Section may be amended and supplemented from time to time, indemnify any director, officer or trustee which it shall have power to indemnify under that Section against any expenses, liabilities or other matters referred to in or covered by that Section. The indemnification provided for in this Article (i) shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office, (ii) shall continue as to a person who has ceased to be a director, officer or trustee, and (iii) shall inure to the benefit of the heirs, executors and administrators of such a person. The Corporation's obligation to provide indemnification under this Article shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the Corporation or any other person.

ARTICLE 6 - General Provisions

6.1 Fiscal Year. The fiscal year of the Corporation shall be determined by the board of directors.

6.2 Corporate Seal. The corporate seal, if any, shall be in such form as shall be approved by the board of directors.

6.3 Written Notice of Meetings. Whenever written notice is required to be given to any person pursuant to law, the Certificate of Incorporation or these Bylaws, it may be given to such person, either personally or by sending a copy thereof by first class mail, or by telegram, charges prepaid, to his address appearing on the books of the Corporation, or to his business or other address supplied by him to the Corporation for the purpose of notice. If the notice is sent by first class mail or by telegraph, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office for transmission to such person. Such notice shall specify the place, day and hour of the meeting and, in case of a special meeting of the shareholders, the general nature of the business to be transacted.

6.4 Waiver of Notice. Whenever any notice whatsoever is required to be given by law, by the Certificate of Incorporation or by these Bylaws, a waiver of such notice either in writing signed by the person entitled to such notice or such person's duly authorized attorney, or by telegraph, cable or any other available method, whether before, at or after the time stated in such waiver, or the appearance of such person or persons at such meeting in person or by proxy, shall be deemed equivalent to such notice.

6.5 Voting of Securities. Except as the directors may otherwise designate, the president or treasurer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for this Corporation (with or without power of substitution) at any meeting of stockholders or shareholders of any other Corporation or organization, the securities of which may be held by this Corporation.

6.6 Evidence of Authority. A certificate by the secretary, or an assistant secretary, or a temporary secretary, as to any action taken by the stockholders, directors, a committee or any officer of representative of the Corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

6.7 Certificate of Incorporation. All references in these Bylaws to the Certificate of incorporation shall be deemed to refer to the certificate of Incorporation of the Corporation, as amended and in effect from time to time.

6.8 Transactions with Interested Parties. No contract or transaction between the Corporation and one or more of the directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of the directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board of directors or a committee of the board of directors which authorizes the contract or transaction or solely because his or their votes are counted for such purpose, if:

(1) The material facts as to his relationship or interest as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorized the contract or transaction by the affirmative votes of a majority of the disinterested directors, even *trough the disinterested directors be less than a quorum;

(2) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the board of directors, a committee of the board of directors, or the stockholders, Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

6.9 Severability. Any determination that any provision of these Bylaws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these Bylaws.

6.10 Pronouns. All pronouns used in these Bylaws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

ARTICLE 7 - Amendments

7.1 By the Board of Directors. These Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the directors present at any regular or special meeting of the board of directors at which a quorum is present.

7.2 By the Stockholders. These Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the affirmative vote of the holders of a majority of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote at any regular meeting of stockholders, or at any special meeting of stockholders, provided notice of such alternation, amendment, repeal or adoption of new Bylaws shall have been stated in the notice of such special meeting.

ADOPTED THIS 27 day of April, 1987.

/s/ Martin A. Voet
Martin A. Voet, President

ATTEST:

/s/ Richard F. Holt
Richard F. Holt, Secretary

CERTIFICATE OF SECRETARY

KNOW ALL MEN BY THESE PRESENTS: That the undersigned does hereby certify that the undersigned is the secretary of the aforesaid Corporation, duly organized and existing under and by virtue of the laws of the State of Delaware; that the above and foregoing Bylaws of said Corporation were duly and regularly adopted as such by the board of directors of said Corporation by unanimous consent.

DATED this 27 day of April, 1987.

/s/ Richard F. Holt
Richard F. Holt, Secretary

AMENDMENT AND CONVERSION AGREEMENT

SECURED CONVERTIBLE PROMISSORY NOTES

This AMENDMENT AND CONVERSION AGREEMENT (this "Agreement") is entered into as of September 30, 2011 by and between CNS Response, Inc., a Delaware corporation (the "Company") and the undersigned holders ("Undersigned Holders"), as the holders of secured convertible promissory notes in the aggregate principal amount set forth opposite each such holder's name below, and of the warrants to purchase the number of common stock, par value $0.001 per share (the "Common Stock"), of the Company set forth opposite each such holder's name below.

WHEREAS, the Company issued secured convertible promissory notes (the "Notes") and warrants to purchase Common Stock at an exercise price of $0.30 per share (the "Warrants") pursuant to a certain Note and Warrant Purchase Agreement (the "October Purchase Agreement"), dated as of October 1, 2010, between the Company and the investors party thereto (such investors, the "Holders");

WHEREAS, the Company and the Holders entered into an agreement to amend and convert the Notes, dated as of June 3, 2011 (the "Agreement to Convert and Amend"), in connection with a planned listing of securities of the Company on a Canadian securities exchange;

WHEREAS, the Notes mature between October 1, 2011 and November 11, 2011;

WHEREAS, pursuant to Section 4.2(b) of the October Purchase Agreement, the Company will not, without the prior written consent of holders of at least a majority of the aggregate principal amount outstanding under all of the Notes issued pursuant to the October Purchase Agreement (the "Majority Holders"), borrow, guaranty or otherwise incur indebtedness in excess of $100,000;

WHEREAS, pursuant to Section 9 of the Note, the Company will not, without the prior written consent of the Majority Holders, amend, waive or modify any provision of the Notes;

WHEREAS, the Company issued subordinated unsecured convertible promissory notes (the "Subordinated Unsecured Notes") and Warrants pursuant to a certain Note and Warrant Purchase Agreement (the "January Purchase Agreement"), dated as of January 20, 2011, between the Company and the investors party thereto (the "Unsecured Holders"), and wishes to amend such notes to grant the holders thereof a second position security interest (the "Second Position Security Interest") in the Collateral (as defined in the Amended and Restated Security Agreement, dated as of the date hereof, between the Company and Paul Buck, as administrative agent for the Secured Parties (as defined therein)(the "Amended and Restated Security Agreement")), which shall be subordinated to the security interest held by the Holders pursuant to the Amended and Restated Security Agreement, and to make other changes, all in accordance with the terms and conditions in substantially the form attached as Exhibit A hereto (the "Unsecured Note Amendment");

WHEREAS, the Company wishes to issue subordinated secured convertible promissory notes (the "New Notes") in the aggregate principal amount of $2 million, such amount subject to increase at the discretion of the Company's Board of Directors, and warrants to purchase Common Stock (the "New Warrants"), all pursuant to a new Note and Warrant Purchase Agreement in substantially the form attached as Exhibit B hereto (the "New Purchase Agreement");

WHEREAS, the Company furthermore wishes to issue shares of its Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the "Offering Price"), with such offering to yield gross proceeds to the Company of at least $10 million (such offering raising gross proceeds of at least $10 million, the "Qualified Offering");

WHEREAS, the Company and the Holders wish to amend the Notes in accordance with the terms set forth herein;

NOW, THEREFORE, subject to and conditioned on the receipt by the Company of consent to the Unsecured Note Amendment by Unsecured Holders representing at least a majority of the aggregate principal amount of Subordinated Unsecured Notes outstanding, the Company and the Undersigned Holders, in consideration for the mutual promises and covenants herein, agree as follows:

1. The Agreement to Convert and Amend is hereby superseded in its entirety and the Holders hereby relinquish any rights they may have with respect to warrants issued or to be issued pursuant to such agreement.

2. Each Undersigned Holder hereby waives the provisions of Section 4.1 ("Registration Rights Agreement") of the October Purchase Agreement, as they may apply to the Qualified Offering, and consents to the registration of the issuance of the securities in the Qualified Offering.

3. a. Notwithstanding anything to the contrary in the October Purchase Agreement, the Agreement to Convert and Amend or any Note, each Undersigned Holder hereby irrevocably

(i) agrees and consents to the Unsecured Note Amendment, including, but not limited to, the grant of the Second Position Security Interest in the Collateral to the Unsecured Holders pursuant to the Amended and Restated Security Agreement (the form of which is attached hereto as Exhibit E);

(ii) agrees and consents to the consummation of the transaction contemplated by the New Purchase Agreement and the issuance of the New Notes and New Warrants by the Company on the terms and conditions set forth in the New Purchase Agreement, including, but not limited to, the grant of a second position security interest in the Collateral to the investors in such transaction pursuant to the Amended and Restated Security Agreement, which second position security interest would be pari passu with the Second Position Security Interest granted under the Unsecured Note Amendment;

(iii) agrees and consents to the amendment of its Note(s) as specified in Exhibit C hereto (the "Amendment"), with such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the Amendment by the Majority Holders (i.e., the Amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and the Irrevocable Consent to Amend and Irrevocable Notice to Convert (the form of which is attached hereto as Exhibit C) from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the Note(s) to be amended are delivered to the Company); and

(iv) agrees to convert such amended Note(s) into shares of Common Stock in accordance with the terms set forth herein and on Exhibit C hereto (the "Conversion"). Such conversion shall be self-actuating in connection with the consummation of the Qualified Offering, i.e., the Conversion shall be effective concurrently with the consummation of the Qualified Offering without any further action by the Company or such Undersigned Holder irrespective of whether the amended Note(s) being converted are delivered to the Company. Upon the effectiveness of the Conversion, the Note(s) being converted pursuant hereto, and the related security interest pursuant to the Amended and Restated Security Agreement, shall be deemed canceled and each Undersigned Holder shall be entitled to receive as the Conversion Amount shares of Common Stock at the Conversion Price in accordance with the terms of the Note(s) as amended pursuant hereto and Exhibit C hereto. For the sake of clarity, the parties agree that such Conversion Price will be adjusted concurrently with the consummation of the Qualified Offering to the lesser of $0.30 or the Offering Price. Upon the effective date of such conversion, any and all obligations of the Company contained in the October Purchase Agreement relating to the Notes shall cease to be of any further force or effect.

b. The Company hereby agrees to the amendments and conversions of the Notes described in (iii) and (iv) above.

c. Each Undersigned Holder represents to the Company as follows:

i. Accredited Investor. The Undersigned Holder is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act").

ii. Investment for Own Account. The shares of Common Stock to be issued upon conversion of the Note(s) in accordance herewith are being, and will be, acquired for his, her or its own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act.

iii. Knowledge and Experience. The Undersigned Holder has such knowledge and experience in financial and business matters that (s)he is capable of evaluating the merits and risks of an investment in the shares of Common Stock and of making an informed investment decision with respect thereto, has the ability and capacity to protect his/her interests and can bear the economic risk of the acceptance of the shares of Common Stock, including a total loss of his/her investment.

iv. Opportunity to Ask Questions. The Undersigned Holder has had the opportunity to ask questions and receive answers from the Company or any authorized person acting on its behalf concerning the Company and its business and to obtain any additional information, to the extent possessed by the Company (or to the extent it could have been acquired by the Company without unreasonable effort or expense) necessary to verify the accuracy of the information received by the Undersigned Holder. In connection therewith, the Undersigned Holder acknowledges that (s)he has had the opportunity to discuss the Company's business, management and financial affairs with the Company's management or any authorized person acting on its behalf.

v. Receipt of Information. The Undersigned Holder has received and reviewed all the information concerning the Company, the Note(s) and the shares of Common Stock underlying such Note(s), both written and oral, that the Undersigned Holder desires. Without limiting the generality of the foregoing, the Undersigned Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Undersigned Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Undersigned Holder has relied solely on his/her own knowledge and understanding of the Company and its business based upon the Undersigned Holder's own due diligence investigations and the Company's filings with the SEC.

d. Simultaneously with the execution of this Agreement, each Undersigned Holder is delivering a duly completed and executed Irrevocable Consent to Amend and Irrevocable Notice to Convert, the form of which is attached hereto as Exhibit C, to the Company, which shall be irrevocable and which, (i) with respect to the Amendment, shall be effective immediately upon the receipt by the Company of consent to the Amendment by the Majority Holders, and (ii) with respect to the Conversion, shall be effective concurrently with the consummation of the Qualified Offering, both as specified in Section 3.a. hereof and Exhibit C hereto.

e. It is understood and agreed that the Company is making available to all Holders the same opportunity to receive the consideration set forth in Section 5 hereof.

4. a. Notwithstanding anything to the contrary in the October Purchase Agreement, the Agreement to Convert and Amend or any Warrant, each of the Undersigned Holders hereby irrevocably agrees and consents to the amendment of their Warrant(s), as set forth in Exhibit D hereto, and the Company hereby agrees and consents to such amendment. Such amendment shall be self-actuating and effective immediately upon receipt by the Company of consent to such amendment by the Majority Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and the Irrevocable Consent to Amend Warrants to Purchase Shares (the form of which is attached hereto as Exhibit D) from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the certificates evidencing the Warrants are delivered to the Company).

b. Simultaneously with the execution of this Agreement, each Undersigned Holder is delivering to the Company a duly executed Irrevocable Consent to Amend Warrant to Purchase Shares, the form of which is attached hereto as Exhibit D, which shall be irrevocable and which shall be effective immediately upon the receipt by the Company of consent to such amendment by the Majority Holders as specified herein and in Exhibit D hereto.

c. It is understood and agreed that the Company is making available to all Holders the same opportunity to receive the consideration set forth in Section 5 hereof.

5. As consideration for the Amendment and Conversion, the Company shall issue to each Holder a warrant to purchase a number of shares of Common Stock corresponding to 30% of the number of shares issuable upon conversion of the principal amount and accrued and unpaid interest through the date of Conversion of the Note(s) amended and converted by such Holder. The terms of such new warrant shall be identical to the terms of the Warrant, as amended to give effect to the amendments specified herein and in Exhibit D hereto. Such new warrant will be issued by the Company and the certificate representing such new warrant will be delivered to the Holder within ten (10) business days of the date of Conversion.

6. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, INTERPRETATION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF CALIFORNIA OR ANY OTHER JURISDICTIONS) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTIONS OTHER THAN THE STATE OF CALIFORNIA.

7. This Agreement may only be amended by written agreement of each of the parties hereto expressly stating that such instrument is intended to modify, amend or supplement this Agreement.

8. An Undersigned Holder may only assign this Agreement with the written consent of the Company. The Company may freely assign this Agreement without the consent of any other party. Any assignment of this Agreement in violation of this Section is null and void. This Agreement shall be binding and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

9. No failure on the part of any party hereto to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All rights, powers and remedies under this Agreement are cumulative and are not exclusive of any other rights, powers and remedies provided by law.

10. This Agreement (including Exhibits A, B, C and D hereto) contains a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter thereof and shall constitute the entire agreement between the parties hereto with respect to the subject matter thereof, superseding all prior oral or written understandings. There are no unwritten agreements between the parties hereto. In the event of a conflict between the terms of this Agreement, on the one hand, and the terms of the Notes, Warrants, October Purchase Agreement and/or Agreement to Convert and Amend, on the other hand, the terms of this Agreement shall prevail and control.

11. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement will be binding upon the Company and the Undersigned Holders and their respective successors, assigns, heirs and personal representatives.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

CNS Response, Inc.

By: ________________________
Name:
Title:

Holders of Secured Convertible Promissory Notes:	Aggregate Principal Amount:	Number of Shares Underlying Warrants:

Exhibit A

[SEE AMENDMENT AND CONVERSION AGREEMENT - SUBORDINATED UNSECURED CONVERTIBLE PROMISSORY NOTES (WITH EXHIBITS)]

Exhibit B

[SEE NOTE AND WARRANT PURCHASE AGREEMENT (WITH EXHIBITS)]

Exhibit C

CNS RESPONSE, INC.

Irrevocable Consent to Amend and Irrevocable Notice to Convert

Secured Convertible Promissory Note

issued pursuant to

Note and Warrant Purchase Agreement, dated as of October 1, 2010, between the Company and the investors signatory thereto

CNS Response, Inc., a Delaware corporation (the "Company") issued to the undersigned holder (the "Holder") a convertible promissory note in the aggregate principal amount of ___________ (the "Note"), pursuant to the agreement specified above.

In accordance with and pursuant to the Amendment and Conversion Agreement (as defined below), the Holder hereby irrevocably (i) agrees and consents to the amendment of the Note as specified below and (ii) agrees to convert such amended Note (including accrued but unpaid interest thereon through the Conversion Date, as defined below) into shares of the Company's common stock, $0.001 par value (the "Common Stock") as further specified below, with (i) such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the amendment by the Majority Holders (as defined in the Note), i.e., such amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and this Irrevocable Consent to Amend and Irrevocable Consent to Convert from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the Note(s) to be amended are delivered to the Company and (ii) such conversion being self-actuating in connection with the consummation of a public offering in which the Company issues shares of its Common Stock and/or other securities at a per share price to be determined by the Company (the "Offering Price") and yielding gross proceeds to the Company of at least $10 million (the "Qualified Offering").

Upon the effective date of such conversion, the Holder shall be entitled to receive as the Conversion Amount shares of Common Stock at the Conversion Price in accordance with the terms of Section 6 of the Note, as amended as specified below.

1. Amendment of Note. The Note is amended as follows:

a. The maturity date of the Note is extended to October 1, 2012.

b. Section 1 ("Definitions") is amended by adding the following provisions:

"(x) 'Amendment and Conversion Agreement' means the agreement, executed as of September 30, 2011 by the Company and at least the Majority Holders in connection with a proposed Qualified Offering."

"(y) 'Qualified Offering' means the issuance by the Company of shares of Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the "Offering Price"), with such offering to yield gross proceeds to the Company of at least $10 million."

In addition, all references in the Note to "Security Agreement" shall be deemed to refer to the Amended and Restated Security Agreement, dated as of September 30, 2011, by and between the Company and Paul Buck, as administrative agent on behalf of the Secured Parties (as defined therein).

b. Section 6(a)(ii) shall be replaced in its entirety with the following:

"At the time specified in Section 6(c)(iii) hereof, the outstanding and unpaid Conversion Amount (as defined below) shall be automatically converted into fully paid and nonassessable shares of Common Stock in accordance with Section 6(c)(iii), 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."

c. The first sentence of Section 6(b) shall be replaced in its entirety with the following:

"Conversion Rate. The number of shares of Common Stock issuable upon conversion of any Conversion Amount pursuant to Section 6(a) (the 'Conversion Rate') shall be determined by dividing the Conversion Amount by the Conversion Price."

d. The definition of "Conversion Price" in Section 6(b) shall be replaced in its entirety with the following:

"'Conversion Price' means, as of any Conversion Date (as defined below) or other date of determination, $0.30, subject to adjustment as provided herein; provided that, in the case of mandatory conversion described in Section 6(c)(iii) hereof, 'Conversion Price' shall mean the lesser of $0.30 or the Offering Price."

d. The following replacement shall be made in the first sentence of Section 6(c)(ii):

"Notwithstanding anything to the contrary set forth herein" is replaced with "Subject to Section 6(c)(iii) hereof."

e. A new subsection (iii) shall be added to Section 6(c) containing the following:

"(iii) *Mandatory Conversion*. Notwithstanding Sections 6(c)(i) and 6(c)(ii) hereof, the Conversion Amount shall be automatically converted into shares of Common Stock concurrently with the consummation of the Qualified Offering (the date on which such conversion occurs, the **'Conversion Date'**). On or before 4:00 p.m., New York Time, on the tenth (10th) Business Day following such Conversion Date (the '**Share Delivery Date**'), the Company shall issue and deliver to the address as specified in the executed Irrevocable Consent to Amend and Irrevocable Notice to Convert, a form of which was attached to the Amendment and Conversion Agreement, 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. The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date."

f. The final clause in Section 18 shall be replaced in its entirety with the following:

"except that such benefits shall expire with respect to the Holders on the date that holders of a majority of the aggregate principal amount of Notes issued have converted their Notes in accordance with the terms hereof."

2. <u>Delivery of Conversion Amount (Qualified Offering)</u>.

Aggregate Principal Amount (plus accrued and unpaid interest) to be converted: ______________________________

Title of Note:___________________________

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

Issue to: ______________________________

____

____

IN WITNESS WHEREOF, the undersigned has duly executed and delivered to the Company this Irrevocable Consent to Amend and Irrevocable Notice to Convert on the date written below.

CONVERTING NOTEHOLDER:

Name: ____________________________

By: ____________________________

Name:
Title:

Date: ________________

Agreed and Accepted:

CNS RESPONSE, INC.

By:
Name:
Title:

Exhibit D

CNS RESPONSE, INC. (the “Company”)

Irrevocable Consent to Amend Warrant to Purchase Shares
issued pursuant to
Note and Warrant Purchase Agreement, dated as of October 1, 2010, between the Company and the investors signatory thereto

CNS Response, Inc., a Delaware corporation (the “Company”) issued to the undersigned holder (the “Holder”) a warrant to purchase ________________ fully paid and nonassessable shares of common stock, par value $0.001 per share (the “Common Stock”), of the Company (the “Warrant”), pursuant to the agreement specified above.

In accordance with and pursuant to the Amendment and Conversion Agreement executed as of September 30, 2011 by the Company and at least the Majority Holders in connection with a proposed public offering of the Company’s Common Stock and/or other securities and yielding gross proceeds to the Company of at least $10 million, the Holder hereby agrees and consents to amend the Warrant as specified below, with such amendment to be self-actuating and effective immediately upon receipt by the Company of consent to such amendment by the Majority Holders (as defined in the Warrant)(i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and this Irrevocable Consent to Amend Warrant to Purchase Shares from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the certificates evidencing the Warrants are delivered to the Company).

1. Amendment of Warrant. The Warrant shall be amended as follows:

a. A new sentence shall be added to the end of Section 7(c) of the Warrant as follows:

“Notwithstanding anything to the contrary set forth herein, no adjustments to the Exercise Price and the number of shares issuable upon exercise of this Warrant shall be triggered under this Section 7(c) by any issuances of securities that occur subsequent to the Qualified Offering (as defined below).”

b. A new Section 7(d) is to be added as follows, with the existing Section 7(d) to be renumbered Section 7(e):

“(d) One-Time Ratchet. If and when the Company issues shares of its Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the “Qualified Offering Price”) and yielding gross proceeds to the Company of at least $10 million, the Exercise Price, to the extent it exceeds the Qualified Offering Price, shall be adjusted so that it shall equal such Qualified Offering Price and the number of shares issuable upon exercise of this Warrant shall be proportionately increased. Such adjustment shall only be made once, after which this Section 7(d) shall cease to be of further effect.”

IN WITNESS WHEREOF, the undersigned has duly executed and delivered to the Company this Irrevocable Consent to Amend on the date written below.

WARRANTHOLDER:

Name: ______________________________

By: ______________________________
Name:
Title:

Date: ____________

Agreed and Accepted:

CNS RESPONSE, INC.

By: ________________________________
Name:
Title:

Exhibit E

[SEE AMENDED AND RESTATED SECURITY AGREEMENT]

AMENDMENT AND CONVERSION AGREEMENT

SUBORDINATED UNSECURED CONVERTIBLE PROMISSORY NOTES

This AMENDMENT AND CONVERSION AGREEMENT (this "Agreement") is entered into as of September 30, 2011 by and between CNS Response, Inc., a Delaware corporation (the "Company") and the undersigned holders ("Undersigned Holders"), as the holders of subordinated unsecured convertible promissory notes in the aggregate principal amount set forth opposite each such holder's name below, and of the warrants to purchase the number of common stock, par value $0.001 per share (the "Common Stock"), of the Company set forth opposite each such holder's name below.

WHEREAS, the Company issued subordinated unsecured convertible promissory notes (the "Notes") and warrants to purchase Common Stock at an exercise price of $0.30 per share (the "Warrants") pursuant to a certain Note and Warrant Purchase Agreement (the "January Purchase Agreement"), dated as of January 20, 2011, between the Company and the investors party thereto (such investors, the "Holders");

WHEREAS, the Company and the Holders entered into an agreement to amend and convert the Notes, dated as of June 3, 2011 (the "Agreement to Convert and Amend"), in connection with a planned listing of securities of the Company on a Canadian securities exchange;

WHEREAS, the Notes mature between January 20, 2012 and April 25, 2012;

WHEREAS, pursuant to Section 4.2(b) of the January Purchase Agreement, the Company will not, without the prior written consent of holders of at least a majority of the aggregate principal amount outstanding under all of the Notes issued pursuant to the January Purchase Agreement (the "Majority Holders"), borrow, guaranty or otherwise incur indebtedness in excess of $100,000;

WHEREAS, pursuant to Section 9 of the Note, the Company will not, without the prior written consent of the Majority Holders, amend, waive or modify any provision of the Notes;

WHEREAS, the Company issued secured convertible promissory notes (the "Senior Notes") and Warrants pursuant to a certain Note and Warrant Purchase Agreement (the "October Purchase Agreement"), dated as of October 1, 2010, between the Company and the investors party thereto (the "Senior Noteholders") and wishes to amend such notes, all in accordance with the terms and conditions in substantially the form attached as Exhibit A hereto (the "Senior Note Amendment");

WHEREAS, the Company wishes to issue subordinated secured convertible promissory notes (the "New Notes") in the aggregate principal amount of $2 million, such amount subject to increase at the discretion of the Company's Board of Directors, and warrants to purchase Common Stock (the "New Warrants"), all pursuant to a new Note and Warrant Purchase Agreement in substantially the form attached as Exhibit B hereto (the "New Purchase Agreement");

WHEREAS, the Company furthermore wishes to issue shares of its Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the "Offering Price"), with such offering to yield gross proceeds to the Company of at least $10 million (such offering raising gross proceeds of at least $10 million, the "Qualified Offering");

WHEREAS, the Company and the Holders wish to amend the Notes in accordance with the terms set forth herein;

NOW, THEREFORE, subject to and conditioned on the receipt by the Company of consent to the Senior Note Amendment by Senior Noteholders representing at least a majority of the aggregate principal amount of Senior Notes outstanding, the Company and the Undersigned Holders, in consideration for the mutual promises and covenants herein, agree as follows:

1. The Agreement to Convert and Amend is hereby superseded in its entirety and the Holders hereby relinquish any rights they may have with respect to warrants issued or to be issued pursuant to such agreement.

2. Each Undersigned Holder hereby waives the provisions of Section 4.1 ("Registration Rights Agreement") of the January Purchase Agreement, as they may apply to the Qualified Offering, and consents to the registration of the issuance of the securities in the Qualified Offering.

3. a. Notwithstanding anything to the contrary in the January Purchase Agreement, the Agreement to Convert and Amend or any Note, each Undersigned Holder hereby irrevocably

(i) agrees and consents to the Senior Note Amendment and to hold, pursuant to the Amended and Restated Security Agreement, dated as of the date hereof, between the Company and Paul Buck, as administrative agent for the Secured Parties (as defined therein), the form of which is attached hereto as Exhibit E (the "Amended and Restated Security Agreement"), a Second Position Security Interest in the Collateral (as defined in the Amended and Restated Security Agreement);

(ii) agrees and consents to the consummation of the transaction contemplated by the New Purchase Agreement and the issuance of the New Notes and New Warrants by the Company on the terms and conditions set forth in the New Purchase Agreement, including, but not limited to, the grant of a second position security interest in the Collateral pursuant to the Amended and Restated Security Agreement to the investors in such transaction, which would be *pari passu* with the second position security interest in the Collateral to be granted to the Holders pursuant to the Amendment (as defined below) and such Amended and Restated Security Agreement, but subordinated to the security interest in the Collateral granted to the Senior Noteholders;

(iii) agrees and consents to the amendment of its Note(s) as specified in Exhibit C hereto (the "Amendment"), with such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the Amendment by the Majority Holders (i.e., the Amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and the Irrevocable Consent to Amend and Irrevocable Notice to Convert (the form of which is attached hereto as Exhibit C) from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the Note(s) to be amended are delivered to the Company); and

(iv) agrees to convert such amended Note(s) into shares of Common Stock in accordance with the terms set forth herein and on Exhibit C hereto (the "Conversion"). Such conversion shall be self-actuating in connection with the consummation of the Qualified Offering, i.e., the Conversion shall be effective concurrently with the consummation of the Qualified Offering without any further action by the Company or such Undersigned Holder irrespective of whether the amended Note(s) being converted are delivered to the Company. Upon the effectiveness of the Conversion, the Note(s) being converted pursuant hereto, and the related security interest pursuant to the Amended and Restated Security Agreement, shall be deemed canceled and each Undersigned Holder shall be entitled to receive as the Conversion Amount shares of Common Stock at the Conversion Price in accordance with the terms of the Note(s) as amended pursuant hereto and Exhibit C hereto. For the sake of clarity, the parties agree that such Conversion Price will be adjusted concurrently with the consummation of the Qualified Offering to the lesser of $0.30 or the Offering Price. Upon the effective date of such conversion, any and all obligations of the Company contained in the January Purchase Agreement relating to the Notes shall cease to be of any further force or effect.

b. The Company hereby agrees to the amendments and conversions of the Notes described in (iii) and (iv) above.

c. Each Undersigned Holder represents to the Company as follows:

i. Accredited Investor. The Undersigned Holder is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act").

ii. Investment for Own Account. The shares of Common Stock to be issued upon conversion of the Note(s) in accordance herewith are being, and will be, acquired for his, her or its own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act.

iii. Knowledge and Experience. The Undersigned Holder has such knowledge and experience in financial and business matters that (s)he is capable of evaluating the merits and risks of an investment in the shares of Common Stock and of making an informed investment decision with respect thereto, has the ability and capacity to protect his/her interests and can bear the economic risk of the acceptance of the shares of Common Stock, including a total loss of his/her investment.

iv. Opportunity to Ask Questions. The Undersigned Holder has had the opportunity to ask questions and receive answers from the Company or any authorized person acting on its behalf concerning the Company and its business and to obtain any additional information, to the extent possessed by the Company (or to the extent it could have been acquired by the Company without unreasonable effort or expense) necessary to verify the accuracy of the information received by the Undersigned Holder. In connection therewith, the Undersigned Holder acknowledges that (s)he has had the opportunity to discuss the Company's business, management and financial affairs with the Company's management or any authorized person acting on its behalf.

v. Receipt of Information. The Undersigned Holder has received and reviewed all the information concerning the Company, the Note(s) and the shares of Common Stock underlying such Note(s), both written and oral, that the Undersigned Holder desires. Without limiting the generality of the foregoing, the Undersigned Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Undersigned Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Undersigned Holder has relied solely on his/her own knowledge and understanding of the Company and its business based upon the Undersigned Holder's own due diligence investigations and the Company's filings with the SEC.

d. Simultaneously with the execution of this Agreement, each Undersigned Holder is delivering a duly completed and executed Irrevocable Consent to Amend and Irrevocable Notice to Convert, the form of which is attached hereto as Exhibit C, to the Company, which shall be irrevocable and which, (i) with respect to the Amendment, shall be effective immediately upon the receipt by the Company of consent to the Amendment by the Majority Holders, and (ii) with respect to the Conversion, shall be effective concurrently with the consummation of the Qualified Offering, both as specified in Section 3.a. hereof and Exhibit C hereto.

e. It is understood and agreed that the Company is making available to all Holders the same opportunity to receive the consideration set forth in Section 5 hereof.

4. a. Notwithstanding anything to the contrary in the January Purchase Agreement, the Agreement to Convert and Amend or any Warrant, each of the Undersigned Holders hereby irrevocably agrees and consents to the amendment of their Warrant(s), as set forth in Exhibit D hereto, and the Company hereby agrees and consents to such amendment. Such amendment shall be self-actuating and effective immediately upon receipt by the Company of consent to such amendment by the Majority Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and the Irrevocable Consent to Amend Warrants to Purchase Shares (the form of which is attached hereto as Exhibit D) from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the certificates evidencing the Warrants are delivered to the Company).

b. Simultaneously with the execution of this Agreement, each Undersigned Holder is delivering to the Company a duly executed Irrevocable Consent to Amend Warrant to Purchase Shares, the form of which is attached hereto as Exhibit D, which shall be irrevocable and which shall be effective immediately upon the receipt by the Company of consent to such amendment by the Majority Holders as specified herein and in Exhibit D hereto.

c. It is understood and agreed that the Company is making available to all Holders the same opportunity to receive the consideration set forth in Section 5 hereof.

5. As consideration for the Amendment and Conversion, the Company shall issue to each Holder a warrant to purchase a number of shares of Common Stock corresponding to 30% of the number of shares issuable upon conversion of the principal amount and accrued and unpaid interest through the date of Conversion of the Note(s) amended and converted by such Holder. The terms of such new warrant shall be identical to the terms of the Warrant, as amended to give effect to the amendments specified herein and in Exhibit D hereto. Such new warrant will be issued by the Company and the certificate representing such new warrant will be delivered to the Holder within ten (10) business days of the date of Conversion.

6. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, INTERPRETATION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF CALIFORNIA OR ANY OTHER JURISDICTIONS) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTIONS OTHER THAN THE STATE OF CALIFORNIA; PROVIDED, HOWEVER, THAT THE PERFECTION OF THE SECURITY INTERESTS IN THE COLLATERAL SHALL BE GOVERNED AND CONTROLLED BY THE LAWS OF THE RELEVANT JURISDICTION OR JURISDICTIONS UNDER THE UCC.

7. This Agreement may only be amended by written agreement of each of the parties hereto expressly stating that such instrument is intended to modify, amend or supplement this Agreement.

8. An Undersigned Holder may only assign this Agreement with the written consent of the Company. The Company may freely assign this Agreement without the consent of any other party. Any assignment of this Agreement in violation of this Section is null and void. This Agreement shall be binding and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

9. No failure on the part of any party hereto to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All rights, powers and remedies under this Agreement are cumulative and are not exclusive of any other rights, powers and remedies provided by law.

10. This Agreement (including Exhibits A, B, C and D hereto) contains a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter thereof and shall constitute the entire agreement between the parties hereto with respect to the subject matter thereof, superseding all prior oral or written understandings. There are no unwritten agreements between the parties hereto. In the event of a conflict between the terms of this Agreement, on the one hand, and the terms of the Notes, Warrants, January Purchase Agreement and/or Agreement to Convert and Amend, on the other hand, the terms of this Agreement shall prevail and control.

11. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement will be binding upon the Company and the Undersigned Holders and their respective successors, assigns, heirs and personal representatives.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

CNS Response, Inc.

By: ____________________
Name:
Title:

Holders of Subordinated Convertible Promissory Notes:	Aggregate Principal Amount:	Number of Shares Underlying Warrants:

Exhibit A

[SEE AMENDMENT AND CONVERSION AGREEMENT - SECURED CONVERTIBLE PROMISSORY NOTES (WITH EXHIBITS)]

Exhibit B

[SEE NOTE AND WARRANT PURCHASE AGREEMENT (WITH EXHIBITS)]

<u>Exhibit C</u>

CNS RESPONSE, INC.

Irrevocable Consent to Amend and Irrevocable Notice to Convert

Unsecured Subordinated Convertible Promissory Note

issued pursuant to

Note and Warrant Purchase Agreement, dated as of January 20, 2011, between the Company and the investors signatory thereto

CNS Response, Inc., a Delaware corporation (the “Company”) issued to the undersigned holder (the “Holder”) a convertible promissory note in the aggregate principal amount of ___________ (the “Note”), pursuant to the agreement specified above.

In accordance with and pursuant to the Amendment and Conversion Agreement (as defined below), the Holder hereby irrevocably (i) agrees and consents to the amendment of the Note as specified below and (ii) agrees to convert such amended Note (including accrued but unpaid interest thereon through the Conversion Date, as defined below) into shares of the Company’s common stock, $0.001 par value (the “Common Stock”) as further specified below, with (i) such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the amendment by the Majority Holders (as defined in the Note), i.e., such amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and this Irrevocable Consent to Amend and Irrevocable Consent to Convert from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the Note(s) to be amended are delivered to the Company and (ii) such conversion being self-actuating in connection with the consummation of a public offering in which the Company issues shares of its Common Stock and/or other securities at a per share price to be determined by the Company (the “Offering Price”) and yielding gross proceeds to the Company of at least $10 million (the “Qualified Offering”).

Upon the effective date of such conversion, the Holder shall be entitled to receive as the Conversion Amount shares of Common Stock at the Conversion Price in accordance with the terms of Section 6 of the Note, as amended as specified below.

1. <u>Amendment of Note</u>. The Note is amended as follows:

a. The maturity date of the Note is extended to October 1, 2012.

b. Section 1 (“Definitions”) is amended by adding the following provisions:

“(x) ‘Amendment and Conversion Agreement’ means the agreement, executed as of September 30, 2011 by the Company and at least the Majority Holders in connection with a proposed Qualified Offering.”

"(y) 'Amended and Restated Security Agreement' means that certain Amended and Restated Security Agreement, dated as of the date hereof, by and between the Company and Paul Buck, as administrative agent on behalf of the Secured Parties (as defined therein)."

"(z) 'Qualified Offering' means the issuance by the Company of shares of Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the "Offering Price"), with such offering to yield gross proceeds to the Company of at least $10 million."

b. Section 6(a)(ii) shall be replaced in its entirety with the following:

"At the time specified in Section 6(c)(iii) hereof, the outstanding and unpaid Conversion Amount (as defined below) shall be automatically converted into fully paid and nonassessable shares of Common Stock in accordance with Section 6(c)(iii), 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."

c. The first sentence of Section 6(b) shall be replaced in its entirety with the following:

"Conversion Rate. The number of shares of Common Stock issuable upon conversion of any Conversion Amount pursuant to Section 6(a) (the 'Conversion Rate') shall be determined by dividing the Conversion Amount by the Conversion Price."

d. The definition of "Conversion Price" in Section 6(b) shall be replaced in its entirety with the following:

"'Conversion Price' means, as of any Conversion Date (as defined below) or other date of determination, $0.30, subject to adjustment as provided herein; provided that, in the case of mandatory conversion described in Section 6(c)(iii) hereof, 'Conversion Price' shall mean the lesser of $0.30 or the Offering Price."

d. The following replacement shall be made in the first sentence of Section 6(c)(ii):

"Notwithstanding anything to the contrary set forth herein" is replaced with "Subject to Section 6(c)(iii) hereof."

e. A new subsection (iii) shall be added to Section 6(c) containing the following:

"(iii) *Mandatory Conversion*. Notwithstanding Sections 6(c)(i) and 6(c)(ii) hereof, the Conversion Amount shall be automatically converted into shares of Common Stock concurrently with the consummation of the Qualified Offering (the date on which such conversion occurs, the **'Conversion Date'**). On or before 4:00 p.m., New York Time, on the tenth (10^{th}) Business Day following such Conversion Date (the '**Share Delivery Date**'), the Company shall issue and deliver to the address as specified in the executed Irrevocable Consent to Amend and Irrevocable Notice to Convert, a form of which was attached to the Amendment and Conversion Agreement, 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. The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Subordinated Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Conversion Date."

(f) A new Section 18 shall be added as follows:

"18. ***Second Position Security Interest***. The obligations of the Company under this Subordinated Note are secured by a second position security interest in the Collateral (as defined in the Amended and Restated Security Agreement), which security interest shall be subordinated to the first position security interest in the Collateral held by the holders of the Secured Convertible Promissory Notes issued pursuant to the Note and Warrant Purchase Agreement, dated as of October 1, 2010, by and between the Company and the investors party thereto, and by the guarantors under the related guaranties issued in favor of certain holders of such notes, and which security interest shall be *pari passu* with the second position security interest in the Collateral to be granted to the investors in the issuance of subordinated secured convertible promissory notes in the aggregate principal amount of at least $2 million (the "**Pari Passu Notes**"). The second position security interest granted to the holders of the Subordinated Notes and the Pari Passu Notes shall be in accordance with, and entitled to the benefits of, the Amended and Restated Security Agreement, except that such benefits, with respect to all holders of the Subordinated Notes and the Pari Passu Notes, shall expire on the date that holders of a majority of the aggregate principal amount issued of Subordinated Notes and Pari Passu Notes (on a combined basis) have converted their Subordinated Notes or Pari Passu Notes, as the case may be, in accordance with the terms hereof."

2. Delivery of Conversion Amount (Qualified Offering).

Aggregate Principal Amount (plus accrued and unpaid interest) to be converted: ______________________________

Title of Note:____________________________

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

Issue to: ______________________________

____

____

IN WITNESS WHEREOF, the undersigned has duly executed and delivered to the Company this Irrevocable Consent to Amend and Irrevocable Notice to Convert on the date written below.

CONVERTING NOTEHOLDER:

Name: ________________________

By: ________________________

Name:
Title:

Date: ________________________

Agreed and Accepted:

CNS RESPONSE, INC.

By: ______________________________
Name:
Title:

Exhibit D

CNS RESPONSE, INC. (the "Company")

Irrevocable Consent to Amend Warrant to Purchase Shares
issued pursuant to
Note and Warrant Purchase Agreement, dated as of January 20, 2011, between the Company and the investors signatory thereto

CNS Response, Inc., a Delaware corporation (the "Company") issued to the undersigned holder (the "Holder") a warrant to purchase ________________ fully paid and nonassessable shares of common stock, par value $0.001 per share (the "Common Stock"), of the Company (the "Warrant"), pursuant to the agreement specified above.

In accordance with and pursuant to the Amendment and Conversion Agreement executed as of September 30, 2011 by the Company and at least the Majority Holders in connection with a proposed public offering of the Company's Common Stock and/or other securities and yielding gross proceeds to the Company of at least $10 million, the Holder hereby agrees and consents to amend the Warrant as specified below, with such amendment to be self-actuating and effective immediately upon receipt by the Company of consent to such amendment by the Majority Holders (as defined in the Warrant)(i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Amendment and Conversion Agreement and this Irrevocable Consent to Amend Warrant to Purchase Shares from the Majority Holders, without any further action by the Company or any Holder irrespective of whether the certificates evidencing the Warrants are delivered to the Company).

1. Amendment of Warrant. The Warrant shall be amended as follows:

a. A new sentence shall be added to the end of Section 7(c) of the Warrant as follows:

"Notwithstanding anything to the contrary set forth herein, no adjustments to the Exercise Price and the number of shares issuable upon exercise of this Warrant shall be triggered under this Section 7(c) by any issuances of securities that occur subsequent to the Qualified Offering (as defined below)."

b. A new Section 7(d) is to be added as follows, with the existing Section 7(d) to be renumbered Section 7(e):

"(d) One-Time Ratchet. If and when the Company issues shares of its Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the "Qualified Offering Price") and yielding gross proceeds to the Company of at least $10 million, the Exercise Price, to the extent it exceeds the Qualified Offering Price, shall be adjusted so that it shall equal such Qualified Offering Price and the number of shares issuable upon exercise of this Warrant shall be proportionately increased. Such adjustment shall only be made once, after which this Section 7(d) shall cease to be of further effect."

IN WITNESS WHEREOF, the undersigned has duly executed and delivered to the Company this Irrevocable Consent to Amend on the date written below.

WARRANTHOLDER:

Name: ____________________

By: ____________________
Name:
Title:

Date: ____________________

Agreed and Accepted:

CNS RESPONSE, INC.

By: ____
Name:
Title:

<u>Exhibit E</u>

[SEE AMENDED AND RESTATED SECURITY AGREEMENT]

EXECUTION COPY

AMENDED AND RESTATED NOTE AND WARRANT PURCHASE AGREEMENT

THIS AMENDED AND RESTATED NOTE AND WARRANT PURCHASE AGREEMENT (this " **Agreement**") is made as of November 11, 2011 by and between CNS Response, Inc., a Delaware corporation (the "**Company**"), and the investors listed on Schedule A hereto (each, an "**Investor**" and together, the "**Investors**").

WHEREAS, two of the Investors (the "**October 2011 Investors**") are party to that certain Note and Warrant Purchase Agreement, dated as of October 18, 2011, between the Company and such Investors (the "**October 2011 Note and Warrant Purchase Agreement**"), pursuant to which such Investors purchased subordinated secured notes and received Warrants (as defined below) to purchase a number of shares of Common Stock corresponding to fifty percent (50%) of the number of shares of Common Stock issuable upon conversion of their notes (the "**Warrant Coverage**");

WHEREAS, certain other Investors have requested an increase in the Warrant Coverage from 50% to 100%;

WHEREAS, the Company proposes to amend and restate the October 2011 Note and Warrant Purchase Agreement as follows:

AGREEMENT

In consideration for the mutual promises and covenants herein, the parties agree as follows:

SECTION 1 – PURCHASE AND SALE OF NOTES AND WARRANTS

1.1 Purchase and Sale of Subordinated Secured Convertible Promissory Notes and Warrants. The Company has authorized the issuance and sale, in accordance with the terms hereof, of Subordinated Secured Convertible Promissory Notes in the original aggregate principal amount of up to $2,000,000 (the "**Note Cap Amount**"), substantially in the form attached as Exhibit A hereto (individually, a "**Subordinated Secured Note**" and, collectively, the "**Subordinated Secured Notes**"), and warrants to purchase shares of the common stock of the Company, par value $0.001 per share (the "**Common Stock**"), substantially in the form attached as Exhibit B hereto (individually, a "**Warrant**" and collectively, the "**Warrants**"). On the terms and subject to the conditions set forth in this Agreement, at the Closings (as defined below) the Company agrees to issue to each Investor, and each Investor agrees to purchase from the Company, (i) Subordinated Secured Notes in the principal amounts set forth on Schedule A hereto and (ii) Warrants, for the aggregate consideration set forth opposite such Investor's name on Schedule A hereto; provided, however, that the October 2011 Investors shall be treated as specified in Section 1.2(c) hereof. The Subordinated Secured Notes and the Warrants are sometimes referred to herein, collectively, as the "**Securities**". The financing pursuant to which the Company is issuing the Securities is hereinafter referred to as the "**Financing**". The Subordinated Secured Notes are subordinated in all respects to the Company's obligations under the secured convertible promissory notes (the "**Senior Notes**") issued pursuant to the Note and Warrant Purchase Agreement, dated as of October 1, 2010, by and between the Company and the Investors listed on Schedule A thereto, and the related guaranties issued in favor of certain holders of such notes by the guarantors thereof, and amended by an Amendment and Conversion Agreement, dated as of September 30, 2011, by and between the Company and the Investors signatory thereto. The Subordinated Secured Notes are *pari passu* with the subordinated convertible promissory notes (the "**Pari Passu Notes**") issued pursuant to the Note and Warrant Purchase Agreement, dated as of January 20, 2011, by and between the Company and the Investors listed on Schedule A thereto, and amended by an separate Amendment and Conversion Agreement, dated as of September 30, 2011, by and between the Company and the Investors signatory thereto. A second position security interest in the Collateral (as defined in the Amended and Restated Security Agreement, dated as of September 30, 2011, between the Company and Paul Buck, as administrative agent for the Secured Parties (as defined therein) (the "**Amended and Restated Security Agreement**")) is granted to the holders of the Subordinated Secured Notes and the Pari Passu Notes in accordance with the terms of the Amended and Restated Security Agreement, the form of which is attached hereto as Exhibit C (the "**Amended and Restated Security Agreement**"), which security interest will be subordinated to the security interest in the Collateral granted to the holders of the Senior Notes and related guarantors under the Amended and Restated Security Agreement.

1.2 Closings.

(a) Initial Closing. Except with respect to the October 2011 Investors, the initial purchase and sale of the Securities shall take place at a closing (the "**Initial Closing**") which shall take place remotely via exchange of documents and signatures at 10:00 a.m. Eastern Time on the day immediately following execution and delivery of this Agreement, or at such other place and time as may be agreed to among the Company and the Investors. At the Initial Closing, the Company shall deliver to each of the Investors purchasing Securities for cash at such closing a Subordinated Secured Note in the face amount set forth opposite such Investor's name on Schedule A under the column entitled "Purchase Price / Principal Amount of Note", and a Warrant to purchase a number of shares of Common Stock corresponding to one hundred percent (100%) of the number of shares of Common Stock issuable upon conversion of such Subordinated Secured Note, against receipt of a check subject to collection or a wire transfer in immediately available funds of the purchase price, to an account designated by the Company.

(b) Additional Closings. The Company shall have the right, on one or more occasions, to hold additional closings (each, an "**Additional Closing**", and collectively with the Initial Closing, the "**Closings**", and individually, a "**Closing**"), pursuant to which it shall have the right to issue and sell additional Subordinated Secured Notes and Warrants to additional Investors or existing Investors (provided that no Additional Closings shall take place later than April 1, 2012). At each Additional Closing, the Company shall deliver to each Investor purchasing Subordinated Secured Notes for cash at such closing a Subordinated Secured Note in the face amount of the purchase price paid by such Investor for such Subordinated Secured Note, and a Warrant to purchase a number of shares of Common Stock corresponding to one hundred percent (100%) of the number of shares of Common Stock issuable upon conversion of such Subordinated Secured Note, against receipt of a check subject to collection or a wire transfer in immediately available funds of the purchase price, to an account designated by the Company. By receiving Securities at an Additional Closing, each Investor so receiving Securities thereby represents that its representations and warranties contained in Section 3 are true and correct as of the date of such Additional Closing. The aggregate principal amount of Subordinated Secured Notes that may be issued at Closings hereunder shall, when added to the aggregate principal amount of Subordinated Secured Notes issued to the October 2011 Investors, in no event exceed the Note Cap Amount. The Company shall have the right to update Schedule A in order to add information regarding Additional Closings, which shall not be deemed to be an amendment to this Agreement.

The obligation of each Investor to purchase and pay cash for the Subordinated Secured Notes and Warrants to be delivered at a Closing is, unless waived by such Investor, subject to the condition that the Company's representations and warranties contained in Section 2 are true, complete and correct on and as of such Closing date. The obligation of the Company to sell and issue Subordinated Secured Notes and Warrants to be delivered at a Closing is, unless waived by the Company, subject to the condition that the relevant Investor's representations and warranties contained in Section 3 are true, complete and correct on and as of the Closing Date.

(c) October 2011 Investors. The Company and the October 2011 Investors agree that this Agreement amends and restates in its entirety the October 2011 Note and Warrant Purchase Agreement, but that the Amended and Restated Security Agreement remains in full force and effect. Each October 2011 Investor agrees to deliver the original certificate representing the subordinated secured note issued to him in connection with the October 2011 Note and Warrant Purchase Agreement to the Company for the purpose of having it replaced with a Subordinated Secured Note. On the day immediately following such delivery by such Investor, the Company shall issue to such Investor a Subordinated Secured Note in the same aggregate principal amount and with the same issuance date as the note it is replacing. Each October 2011 Investor furthermore agrees to deliver the original certificate representing the Warrant issued in connection with the October 2011 Note and Warrant Purchase Agreement to the Company for the purpose of having it replaced with a Warrant to purchase a number of shares of Common Stock corresponding to one hundred percent (100%) of the number of shares of Common Stock issuable upon conversion of such Investor's Subordinated Secured Note. On the day immediately following such delivery by an October 2011 Investor, the Company shall issue to such Investor a Warrant, having an expiration date identical to that of the Warrant it is replacing, to purchase a number of shares of Common Stock corresponding to one hundred percent (100%) of the number of shares of Common Stock issuable upon conversion of such Investor's Subordinated Secured Note. By receiving such Subordinated Secured Note and such Warrant, each October 2011 Investor thereby represents that his representations and warranties contained in Section 3 of the October 2011 Note and Warrant Purchase Agreement are true and correct as of the date of such receipt.

SECTION 2 - REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to each Investor as follows:

2.1 Existence of Company. The Company is a duly organized Delaware corporation. The Company is validly existing in all jurisdictions where it conducts its business.

2.2 Authority to Execute. The execution, delivery and performance by the Company of (i) this Agreement, (ii) the Subordinated Secured Notes and the Warrants to be issued pursuant to the terms of this Agreement, (iii) the Amended and Restated Security Agreement and (iv) any financing statements thereunder (collectively, the " **Loan Documents**") are within the Company's corporate powers, have been duly authorized by all necessary corporate action, do not and will not conflict with any provision of law or organizational document of the Company (including its Certificate of Incorporation or Bylaws) or of any agreement or contractual restrictions binding upon or affecting the Company or any of its property and need no further stockholder or creditor consent.

2.3 No Stockholder Approval Required. No approval of the Company's stockholders is required for (i) the entry by the Company into this Agreement, (ii) the issuance of the Subordinated Secured Notes and Warrants contemplated by this Agreement, or (iii) the issuance of any shares of stock upon conversion of the Subordinated Secured Notes or exercise of the Warrants.

2.4 Valid Issuance. The shares of stock to be issued upon conversion of the Subordinated Secured Notes and exercise of the Warrants contemplated by this Agreement will be, upon conversion and exercise in accordance with the terms of the Subordinated Secured Notes or the Warrants, as applicable, and in the case of the Warrants upon payment of the exercise price therefor in accordance with the terms of such Warrants, validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under the Loan Documents, the documents entered into by the investors and other parties in the financing giving rise to repayment of the Subordinated Secured Notes, applicable state and federal securities laws and liens or encumbrances created by or imposed by the Investor. Assuming the accuracy of the representations of the Investor in Section 3 of this Agreement, such Subordinated Secured Notes and Warrants and the shares of stock to be issued upon conversion of such Subordinated Secured Notes and exercise of such Warrants will be issued in compliance with all applicable federal and state securities laws. The issuance of such Subordinated Secured Notes, Warrants and shares will not trigger any anti-dilution protections.

2.5 Binding Obligation. This Agreement is, and the other Loan Documents when delivered hereunder will be, legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

2.6 Litigation. Other than the litigation disclosed in the Company's most recent SEC Reports (as defined below), no litigation or governmental proceeding is pending or threatened against the Company which may have a materially adverse effect on the financial condition, operations or prospects of the Company, and to the knowledge of the Company, no basis therefore exists.

2.7 Intellectual Property. To the best of the Company's knowledge, the Company owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and as presently proposed to be conducted, without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products.

2.8 SEC Reports. The Company has timely filed all forms, reports, schedules, proxy statements, registration statements and other documents (including all exhibits thereto) required to be filed by it with the Securities and Exchange Commission (the "**SEC**") pursuant to the federal securities laws and the SEC rules and regulations thereunder, together with all certifications required pursuant to the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**") (as they have been amended since the time of their filing, including all exhibits thereto, the "**SEC Reports**"). Each of the SEC Reports complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "**Securities Act**") and the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the Sarbanes-Oxley Act and the rules and regulations of the SEC under all of the foregoing. None of the SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 3 - REPRESENTATIONS AND WARRANTIES OF THE INVESTORS

Each Investor represents and warrants to the Company as follows:

3.1 Authorization; Binding Obligations. The Investor has full power and authority to enter into this Agreement and each of the other Loan Documents to which he, she or it is a party, and this Agreement and each other Loan Document constitutes a valid and legally binding obligation of each Investor, enforceable against each Investor in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

3.2 Accredited Investor. The Investor is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act.

3.3 Investment for Own Account. The Subordinated Secured Notes and Warrants issued pursuant to this Agreement and the shares of stock to be issued upon conversion of such Subordinated Secured Notes and exercise of such Warrants are being, and will be, acquired for his, her or its own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act.

3.4 Knowledge and Experience. The Investor has such knowledge and experience in financial and business matters that (s)he is capable of evaluating the merits and risks of an investment in the Securities and of making an informed investment decision with respect thereto, has the ability and capacity to protect his/her interests and can bear the economic risk of the acceptance of the Securities, including a total loss of his/her investment.

3.5 Opportunity to Ask Questions. The Investor has had the opportunity to ask questions and receive answers from the Company or any authorized person acting on its behalf concerning the Company and its business and to obtain any additional information, to the extent possessed by the Company (or to the extent it could have been acquired by the Company without unreasonable effort or expense) necessary to verify the accuracy of the information received by the Investor. In connection therewith, the Investor acknowledges that (s)he has had the opportunity to discuss the Company's business, management and financial affairs with the Company's management or any authorized person acting on its behalf.

3.6. Receipt of Information. The Investor has received and reviewed all the information concerning the Company, the Securities and the shares of common stock underlying such Securities, both written and oral, that the Investor desires. Without limiting the generality of the foregoing, the Investor has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Investor desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Investor has relied solely on his/her own knowledge and understanding of the Company and its business and prospects based upon the Investor's own due diligence investigations and the Company's filings with the SEC.

SECTION 4 - COVENANTS OF THE COMPANY

4.1 Registration Rights Agreement. Notwithstanding any provision in the Loan Documents to the contrary, but subject to the final sentence of this Section 4.1, the Company agrees that all securities issued upon conversion of the Subordinated Secured Notes and exercise of the Warrants contemplated by this Agreement will be subject to a Registration Rights Agreement between the Company and each Investor. In the event that the terms of such Subordinated Secured Notes and Warrants do not provide for such a Registration Rights Agreement, the Company agrees to work with each Investor in good faith to prepare and execute such a Registration Rights Agreement on terms reasonably satisfactory to each Investor at or prior to the time of conversion or exercise. Any rights granted to the holder pursuant to this Section 4.1 shall not apply to the consummation of a public offering in which the Company issues shares of its Common Stock and/or other securities, which yields gross proceeds to the Company of at least $10 million (the "**Qualified Offering**"), and the registration of the issuance of the securities in the Qualified Offering.

4.2 Restrictive Covenants. Without the consent of the holders of Subordinated Secured Notes representing at least a majority of the aggregate principal amount outstanding under all of the Subordinated Secured Notes issued pursuant to this Agreement and the October 2011 Note and Warrant Purchase Agreement (the "**Majority Holders**"), the Company shall not:

(a) effect a merger, reorganization, or sell, exclusively license or lease, or otherwise dispose of any assets of the Company with a value in excess of $20,000, other than in the ordinary course of business;

(b) borrow, guaranty or otherwise incur indebtedness in excess of $100,000 (except in connection with Additional Closings);

(c) acquire all or substantially all of the properties, assets or stock of any other corporation or entity or assets with a value greater than $50,000; or

(d) form, contribute capital or assets to, or make a loan or advance in excess of $50,000 to (i) any partially-owned or wholly-owned subsidiary formed or acquired after the date of this Agreement, (ii) a joint venture or (iii) a similar business entity;

provided, *however*, that the rights of the Investor under this Section 4.2 shall not apply (1) after the repayment in full of the Subordinated Secured Notes or (2) in connection with a transaction that provides for the repayment in full of the Subordinated Secured Notes upon the closing of such transaction.

SECTION 5 - MISCELLANEOUS

5.1 No Waiver; Cumulative Remedies. No failure or delay on the part of any party to any Loan Document in exercising any right or remedy under, or pursuant to, any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy or power preclude other or further exercise thereof, or the exercise of any other right, remedy or power. The remedies in the Loan Documents are cumulative and are not exclusive of any remedies provided by law.

5.2 Amendments and Waivers. Except as otherwise expressly set forth in this Agreement, any term of this Agreement may be amended (either retroactively or prospectively) with the written consent of the Company and the Majority Holders. Any amendment effected in accordance with this Section 5.2 shall be binding upon each Investor, each future holder of Securities and the Company.

5.3 Notices, Etc. All notices, requests, consents and other communications hereunder to any party shall be deemed to be sufficient if contained in a written instrument delivered in person, sent by facsimile transmission to the number set forth on the signature page hereof only if a hard copy is sent by U.S. mail to the recipient within 24 hours of facsimile transmission, or such other number as may hereinafter be designated in writing by the recipient to the sender, or duly sent by first class registered or certified mail, return receipt requested, postage prepaid, or overnight delivery service (*e.g*., Federal Express) addressed to such party (i) if to the Company, at the address set forth on the signature page hereof or (ii) if to an Investor, at the address set forth on Schedule A hereof or such other address as may hereafter be designated in writing by the addressee to the sender. All such notices, advises and communications shall be deemed to have been received: (a) in the case of personal delivery, on the date of such delivery; (b) in the case of facsimile transmission, on the date of transmission; and (c) in the case of mailing or delivery by service, on the date of delivery as shown on the return receipt or delivery service statement.

5.4 Costs and Expenses. The Company agrees to be responsible for its costs and expenses incurred in connection with the preparation of the Loan Documents and to reimburse each Investor for all of its costs and expenses incurred in connection with the preparation of the Loan Documents, including legal fees of each Investor's outside counsel. If any litigation, contest, dispute, suit, proceeding or action is instituted between or among any of the parties hereto regarding the enforcement or interpretation of this Agreement or any of the Exhibits hereto, the prevailing party shall be entitled to reimbursement from the other party or parties for all reasonable expenses, costs, charges and other fees (including legal fees) incurred in connection with or related to such dispute.

5.5 Governing Law. The Loan Documents shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California or of any other state; provided, however, that the perfection of the security interests in the Collateral shall be governed and controlled by the laws of the relevant jurisdiction or jurisdictions under the UCC. The Company and each Investor consent to personal jurisdiction in Orange County, California.

5.6 Severability. If any term in this Agreement is held to be illegal or unenforceable, the remaining portions of this Agreement shall not be affected, and this Agreement shall be construed and enforced as if this Agreement did not contain the term held to be illegal or unenforceable.

5.7 Binding Effect; Assignment. The Loan Documents shall be binding upon and inure to the benefit of the Company and each Investor and their respective successors and assigns. The Company may not assign its rights or interest under the Loan Documents without the prior written consent of the Majority Holders.

5.8 Transfer of Securities. Notwithstanding the legend required to be placed on the Securities by applicable law, no registration statement or opinion of counsel shall be necessary: (a) for a transfer of Securities to the respective estate of each Investor or for a transfer of Securities by gift, will or intestate succession of each Investor to his or her spouse or to the siblings, lineal descendants or ancestors each Investor or his or her spouse, if the transferee agrees in writing to be subject to the terms hereof to the same extent as if he or she were the original Investor hereunder; or (b) for a transfer of Securities pursuant to SEC Rule 144 or any successor rule, or for a transfer of Securities pursuant to a registration statement declared effective by the SEC under the Securities Act relating to the Securities.

5.9 Survival of Representations, Warranties and Covenants. The representations and warranties of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement indefinitely, and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the other parties. The covenants of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement until such time as the Subordinated Secured Notes have been paid in full.

5.10 California Commissioner of Corporations. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF THE SECURITIES OR PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION FOR SUCH SECURITIES PRIOR TO THE QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATIONS BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

CNS RESPONSE, INC.

By: ______________________________

Name: Paul Buck
Title: Chief Financial Officer

INVESTOR:

By: ______________________________

Name:

Title:

THIS SUBORDINATED SECURED NOTE AND ANY SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS SUBORDINATED SECURED NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THIS SUBORDINATED SECURED NOTE OR SUCH SHARES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

CNS RESPONSE, INC.
FORM OF SUBORDINATED SECURED CONVERTIBLE PROMISSORY NOTE

$_______________ **Date of Issuance: ____________________**
Aliso Viejo, California

FOR VALUE RECEIVED, CNS Response, Inc., a Delaware corporation (the "**Company**"), promises to pay to ______________________ ("**Holder**"), or its registered assigns, in lawful money of the United States of America, the principal sum of _______________________ ($____), together with a single payment of accrued interest calculated based on the actual days outstanding and a 360 day year at a rate of nine percent (9%). Such interest shall be paid pursuant to Section 2 below ("**Interest Payment**"). All unpaid principal, together with the accrued interest and other amounts payable under this Subordinated Convertible Promissory Note (this "**Subordinated Secured Note**") shall be due and payable, unless converted in accordance with Section 6 hereof, on the earliest of (i) the maturity date of twelve months from the date of issuance**,** (ii) prepayment of this Subordinated Secured Note pursuant to Section 3 below, or (iii) when, upon or after the occurrence of an Event of Default (as defined below), such amounts are made due and payable in accordance with the terms hereof. This Subordinated Secured Note is one of a series of Subordinated Secured Notes (the "**Subordinated Secured Notes**") issued pursuant to that certain Note and Warrant Purchase Agreement, dated as of October 18, 2011, by and among the Company and each of the entities set forth on Schedule A thereto (the "**Agreement**"), except that Sections 6(a)(ii) and 6(c)(iii) and the proviso in the definition of "Conversion Price" in Section 6(b) of this Subordinated Secured Note may not be amended, waived or modified without the written consent of the Company and the Holder. The Subordinated Secured Notes are subordinated in all respects to the Company's obligations under the secured convertible promissory notes (the "**Senior Notes**") issued pursuant to the Note and Warrant Purchase Agreement, dated as of October 1, 2010, by and between the Company and the Investors listed on Schedule A thereto, and the related guaranties issued in favor of certain holders of such notes by the guarantors thereof, and amended by an Amendment and Conversion Agreement, dated as of September 30, 2011, by and between the Company and the Investors signatory thereto. The Subordinated Secured Notes are pari passu with the subordinated convertible promissory notes (the "**Pari Passu Notes**") issued pursuant to the Note and Warrant Purchase Agreement, dated as of January 20, 2011, by and between the Company and the Investors listed on Schedule A thereto, and amended by an separate Amendment and Conversion Agreement, dated as of September 30, 2011, by and between the Company and the Investors signatory thereto. A second position security interest in the Collateral (as defined in the Amended and Restated Security Agreement defined below) is granted to the holders of the Subordinated Secured Notes and holders of the Pari Passu Notes in accordance with the terms of the Amended and Restated Security Agreement, which security interest will be subordinated to the security interest in the Collateral granted to the holders of the Senior Notes and related guarantors under the Amended and Restated Security Agreement.

The following is a statement of the rights of Holder and the conditions to which this Subordinated Secured Note is subject, and to which the Company and Holder agree:

1. ***Definitions***. As used in this Subordinated Secured Note, the following capitalized terms have the following meanings:

(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) "**Company**" includes the corporation initially executing this Subordinated Secured Note and any Person which shall succeed to or assume the obligations of the Company under this Subordinated Secured Note.

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

(e) "**Holder**" shall mean the Person specified in the introductory paragraph of this Subordinated Secured Note or any other Person who is the registered holder of this Subordinated Secured Note.

(f) "**Majority Holders**" means the holders of Subordinated Secured Notes representing at least a majority of the aggregate principal amount outstanding under all of the Subordinated Secured Notes issued pursuant to the Agreement.

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

(h) "**Outstanding Debt**" shall mean, as of a particular time, the sum of (i) the then outstanding principal amount of this Subordinated Secured Note and (ii) the amount of interest due pursuant to the Interest Payment.

(i) "**Person**" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

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

(k) "**Securities Act**" shall mean the Securities Act of 1933, as amended.

(l) "**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).

(m) "**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).

(n) "**Amended and Restated Security Agreement**" means that certain Amended and Restated Security Agreement, dated as of September 30, 2011, by and between the Company and Paul Buck, as administrative agent on behalf of the Secured Parties (as defined therein).

(o) **"Qualified Offering"** means the issuance by the Company of shares of Common Stock and/or other securities in a public offering at a per share price to be determined by the Company (the "**Offering Price**"), with such offering to yield gross proceeds to the Company of at least $10 million.

2. ***Interest Payment***. Subject to Section 3, the Interest Payment shall be payable at the same time the principal amount of the Subordinated Secured Note is repaid as described in the first paragraph hereof.

3. ***Prepayment***. This Subordinated Secured Note may be prepaid, in whole or part, at any time by the Company. All prepayment amounts shall first be applied to any accrued interest with the remainder applied towards the outstanding principal (**"Full Prepayment"** or **"Partial Prepayment"**). Holder agrees to deliver the original of this Subordinated Secured Note (or a notice to the effect that the original Subordinated Secured Note has been lost, stolen or destroyed along with an indemnity with respect thereto in a form satisfactory to the Company) at the closing of the Full Prepayment for cancellation or Partial Prepayment for the appropriate principal adjustment; *provided, however*, that upon Full Prepayment of the amounts set forth above with respect to the Outstanding Debt, the Outstanding Debt shall be deemed satisfied and paid in full and the Company shall have no other obligation with respect to the Outstanding Debt, whether or not this Subordinated Secured Note is delivered for cancellation as set forth in the preceding sentence.

4. ***Notice of Defaults***. The Company shall furnish to Holder written notice of the occurrence of any Event of Default hereunder promptly following the occurrence thereof.

5. ***Events of Default***.

(a) The occurrence of any of the following shall constitute an "**Event of Default**":

(i) Failure of the Company to pay the principal or the Interest Payment on this Subordinated Secured Note when due.

(ii) Failure of the Company to perform or observe any covenant or agreement as required by this Subordinated Secured Note or the Agreement and continuation of such failure for a period of ten (10) days following written notice from Holder.

(iii) The Company commences a voluntary bankruptcy filing.

(iv) A court of competent jurisdiction enters an order of decree under any bankruptcy law that is not vacated, set aside or reversed within sixty (60) days.

(v) Any representation or warranty of the Company made in this Subordinated Secured Note or the Agreement is proven not to have been true and correct in any material respect as of the date of this Subordinated Secured Note.

(b) If an Event of Default occurs and is continuing, Holder may exercise any or all of the following rights and remedies:

(i) Declare the Subordinated Secured Note and the Interest Payment be immediately due and payable, and upon such declaration, the Subordinated Secured Note and the Interest Payment shall immediately be due and payable, without presentment, demand, protest or any notice of any kind, all of which are expressly waived.

(ii) Exercise any and all other rights and remedies available to Holder and otherwise available to creditors at law and in equity.

6. ***Conversion.*** The Subordinated Secured 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 6.

(a) Conversion Right.

(i) 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 6(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.

(ii) If the Holder chooses to convert the outstanding and unpaid Conversion Amount (as defined below) into fully paid and nonassessable shares of Common Stock in accordance with Section 6(c)(iii) hereof, then, at the time specified in Section 6(c)(iii), the Conversion Amount shall be converted into fully paid and nonassessable shares of Common Stock 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 6(a) (the "**Conversion Rate**") shall be determined by dividing the Conversion Amount by the Conversion Price.

"**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.

"**Conversion Price**" means, as of any Conversion Date (as defined below) or other date of determination, $0.10, subject to adjustment as provided herein; provided that, in the case of any conversion pursuant to Section 6(c)(iii) hereof, "**Conversion Price**" shall mean the lesser of $0.10 or the Offering Price.

(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 6(c)(ii), cause the Subordinated Secured 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 Subordinated Secured Note is physically surrendered for conversion as required by Section 6(c)(ii) and the outstanding principal of the Subordinated Secured 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 Subordinated Secured Note and at its own expense, issue and deliver to the Holder a new Subordinated Secured 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 Subordinated Secured 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*. Subject to Section 6(c)(iii) hereof, upon conversion of any portion of the Subordinated Secured Note in accordance with the terms hereof, the Holder shall not be required to physically surrender the Subordinated Secured Note to the Company unless (A) the full Conversion Amount represented by the Subordinated Secured 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 Subordinated Secured 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 Subordinated Secured Note upon conversion.

(iii) *Conversion or Redemption at Option of Holder.* Notwithstanding Sections 6(c)(i) and 6(c)(ii) hereof, if and when the Qualified Offering is consummated, the Conversion Amount shall be either (I) converted into shares of Common Stock concurrently with the consummation of the Qualified Offering or (II) redeemed for cash, with the choice between conversion and redemption being at the sole option of the Holder. The date on which the Qualified Offering is consummated is also referred to herein as the "**Closing Date**." If the Holder has chosen to convert the Conversion Amount, then, on or before 4:00 p.m., New York Time, on the tenth (10th) Business Day following such Closing Date (the "**Share Delivery Date**"), the Company shall (i) issue and deliver to the address as specified in the executed Conversion Notice (a form of which is attached hereto as Exhibit I), 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 and (ii), if the Subordinated Secured Note was converted only in part, make payment to the Holder in U.S. dollars for the unconverted principal amount and accrued and unpaid interest thereon, if any. If the Holder has chosen to redeem the Conversion Amount for cash, then, on or before 4:00 p.m., New York Time, on the Share Delivery Date, the Company shall make payment to the Holder in U.S. dollars for the Conversion Amount. If the Company complies with the terms of this Section 6(c)(iii), then, on the date on which it so complies, the Outstanding Debt shall be deemed satisfied and paid in full and the Company shall have no other obligation with respect to the Outstanding Debt, whether or not this Subordinated Secured Note is delivered for cancellation. The person or persons entitled to receive the shares of Common Stock issuable upon a conversion of this Subordinated Secured Note shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Closing Date.

7. ***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 7(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 7(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 7(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 7(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) Ratchet. In the event the Company shall issue Common Stock, or securities convertible, exchangeable or exercisable into Common Stock (excluding in each case shares issued (i) in any of the transactions described in Subsections (a), (b) and (c) above, (ii) upon exercise of options granted to the Company's employees, directors, consultants or officers under a plan or plans or individual compensation arrangements adopted by the Company's board of directors, if such shares would otherwise be included in this Subsection (d), (iii) upon conversion of shares or exercise of options and warrants outstanding as of the date hereof, or (iv) to shareholders of any Company which merges into the Company in proportion to their stock holdings of such Company immediately prior to such merger, upon such merger), for consideration per share, exercise price per share, conversion price per share or exchange price per share (as the case may be)("**Offering Price**") less than the then applicable Conversion Price, the Conversion Price shall be adjusted immediately thereafter so that it shall equal such Offering Price. Such adjustment shall be made successively whenever any such issuance is made.

(e) Other Events; Other Dividends and Distributions. If any event occurs of the type contemplated by the provisions of this Section 7 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 Subordinated Secured Note; provided that no such adjustment will increase the Conversion Price as otherwise determined pursuant to this Section 7.

(f) Notice of Adjustment. Whenever the Conversion Price is adjusted pursuant to this Section 7, the Company shall promptly mail notice of such adjustment to each 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.

8. ***Successors and Assigns***. Subject to the restrictions on transfer described in Sections 10 and 12 below, the rights and obligations of the Company and Holder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

9 . ***Waiver and Amendment***. Sections 6(a)(ii) and 6(c)(iii) herein (Conversion or Redemption at Option of Holder) and the proviso in the definition of "Conversion Price" in Section 6(b) herein may not be amended, waived or modified without the written consent of the Company and the Holder, and any such amendment, waiver or modification shall be binding upon the Company and the Holder, but shall not affect any other Subordinated Secured Note or holder thereof. Any provision of this Subordinated Secured Note other than Sections 6(a)(ii), 6(c)(iii) and the proviso in the definition of "Conversion Price" in Section 6(b) may be amended, waived or modified upon the written consent of the Company and the Majority Holders, and any such amendment, waiver or modification shall be binding upon the Company and each holder of Subordinated Secured Notes, it being understood and agreed that such written consent will affect all Subordinated Secured Notes and be binding on all holders thereof regardless of whether any particular holder executed such consent.

10. ***Transfer of this Subordinated Secured Note***. With respect to any offer, sale or other disposition of this Subordinated Secured Note, Holder will give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of Holder's counsel, or other evidence if reasonably satisfactory to the Company, to the effect that such offer, sale or other distribution may be effected without registration or qualification (under any federal or state law then in effect, as applicable). Upon receiving such written notice and reasonably satisfactory opinion, if so requested, or other evidence, the Company, as promptly as practicable, shall notify Holder that Holder may sell or otherwise dispose of this Subordinated Secured Note, all in accordance with the terms of the notice delivered to the Company. This Subordinated Secured Note thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Subordinated Secured Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Subordinated Secured Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Subordinated Secured Note for the purpose of receiving all payments of principal and the Premium Payment and for all other purposes whatsoever, whether or not this Subordinated Secured Note shall be overdue and the Company shall not be affected by notice to the contrary. Notwithstanding the foregoing, Holder may assign this Subordinated Secured Note to an affiliated entity without the prior written consent of the Company so long as such assignment complies with applicable law.

11. ***Assignment by the Company***. Neither this Subordinated Secured Note nor any of the rights, interests or obligations hereunder may be assigned, in whole or in part (other than by operation of law) by the Company without the prior written consent of the Majority Holders.

12. ***Notices***. All notices, requests, demands, consents, instructions or other communications required or permitted hereunder shall be in writing and faxed, mailed or delivered to each party at the respective addresses of the parties as set forth on the signature page hereto, or at such other address or facsimile number as a party shall have furnished to the other party in writing. All such notices and communications will be deemed effectively given the earlier of (i) when received, (ii) when delivered personally, (iii) one business day after being delivered by facsimile (with receipt of appropriate confirmation), (iv) one business day after being deposited with an overnight courier service of recognized standing or (v) four days after being deposited in the U.S. mail, first class with postage prepaid.

13. ***Employees and Agents***. Holder may take any action hereunder by or through agents or employees so long as such agents or employees are duly authorized to so act on behalf of the Holder.

14. ***Payment***. Payment shall be made in lawful tender of the United States.

15. ***Expenses; Waivers***. If this Subordinated Secured Note is not paid when due and Holder takes any action to enforce Holder's rights hereunder, the Company shall promptly pay upon demand by Holder all such reasonable costs of collection, including reasonable attorneys' fees, whether or not litigation is commenced. The Company hereby waives notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor and all other notices or demands relative to this instrument. The Company also shall pay for all attorney's fees incurred by Holder related to the drafting and preparation of this Subordinated Secured Note.

16. ***Governing Law***. This Subordinated Secured Note and all actions arising out of or in connection with this Subordinated Secured Note shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California, or of any other state.

17. ***Effectiveness.*** This Subordinated Secured Note shall become effective upon the execution by the Company and Holder.

18. ***Second Position Security Interest***. The obligations of the Company under this Subordinated Secured Note are secured by a second position security interest in the Collateral, which security interest shall be subordinated to the first position security interest in the Collateral held by the holders of the Senior Notes and related guarantors under the Amended and Restated Security Agreement, and which security interest shall be *pari passu* with the second position security interest in the Collateral held by the holders of the Pari Passu Notes. The second position security interest granted to the holders of Subordinated Secured Notes and Pari Passu Notes shall be in accordance with, and entitled to the benefits of, the Amended and Restated Security Agreement, except that such benefits, with respect to holders of all Subordinated Secured Notes and Pari Passu Notes, shall expire on the date that holders of a majority of the aggregate principal amount issued of Subordinated Secured Notes and Pari Passu Notes (on a combined basis) have converted their Subordinated Secured Notes or Pari Passu Notes, as the case may be, in accordance with the terms hereof.

[*Signatures Appear on Following Page*]

The Company has caused this Subordinated Secured Note to be issued as of the date first written above and agrees to all the terms set forth above.

CNS RESPONSE, INC.

By: ____________________
Name:
Title:

Address: 85 Enterprise, Suite 410
Aliso Viejo, CA 92656

Accepted and agreed:

HOLDER:

____

____
Name and Position

Address:

EXHIBIT I

CNS RESPONSE, INC.
CONVERSION NOTICE

Reference is made to the Subordinated Convertible Promissory Note (the "**Subordinated Secured Note**") issued to the undersigned by CNS Response, Inc. (the "**Company**"). In accordance with and pursuant to the Subordinated Secured Note, the undersigned hereby elects to convert the Conversion Amount (as defined in the Subordinated Secured Note) of the Subordinated Secured 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 Subordinated Secured 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 21.1

CNS Response, Inc., a California corporation and Colorado CNS Response, Inc., aColorado corporation, are wholly-owned subsidiaries of CNS Response, Inc., aDelaware corporation.

Neuro-Therapy Clinic, Inc., a Colorado corporation, is awholly-owned subsidiary of Colorado CNS Response, Inc.

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of CNS Response, Inc.
85 Enterprise, Suite 410
Aliso Viejo, CA 92656

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 No. 333-166394 of CNS Response Inc. of our report dated December 21, 2011, relating to the consolidated financial statements which appear in this Form 10-K.

/s/ Cacciamatta Accountancy Corporation
Cacciamatta Accountancy Corporation
Irvine, California
December 21, 2011

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to SEC Rule 13a-14(a)/15d-14(a)

I, George Carpenter, certify that:

1. I have reviewed this Form 10-K of CNS Response, Inc. for the year ended September 30, 2011;

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

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

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

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

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

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

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

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 21, 2011

/s/ George Carpenter
Name: **George Carpenter**
Title: **Chief Executive Officer**

Exhibit 31.2

Certification of Principal Financial Officer
Pursuant to SEC Rule 13a-14(a)/15d-14(a)

I, Paul Buck, certify that:

1. I have reviewed this Form 10-K of CNS Response, Inc. for the year ended September 30, 2011;

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

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

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

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

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

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

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

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

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

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

Dated: December 21, 2011

/s/ Paul Buck
Name: **Paul Buck**
Title: **Chief Financial Officer**

Exhibit 32.1

Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

In connection with the Annual Report on Form 10-K of CNS Response, Inc. (the "Company") for the year ended September 30, 2011, as filed with the Securities and Exchange Commission (the "Report"), I, George Carpenter, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act.

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

/s/ George Carpenter
George Carpenter
Chief Executive Officer
December 21, 2011

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

This certification is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Exhibit 32.2

Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code

In connection with the Annual Report on Form 10-K of CNS Response, Inc. (the "Company") for the year ended September 30, 2011, as filed with the Securities and Exchange Commission (the "Report"), I, Paul Buck, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act.

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

/s/ Paul Buck
Paul Buck
Chief Financial Officer
December 21, 2011

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

This certification is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.