As filed with the Securities and Exchange Commission on May 21, 2012

Registration No. 333-173934

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

Amendment No. 5
to
FORM S-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

CNS RESPONSE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**8734**	**87-0419387**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S Employer Identification No.)

85 Enterprise, Suite 410
Aliso Viejo, CA 92656
(949) 420-4400

(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

George Carpenter, Chief Executive Officer
CNS Response, Inc.
85 Enterprise, Suite 410
Aliso Viejo, CA 92656
(949) 420-4400

(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

Copy to:

Jeffrey A. Baumel, Esq. **SNR Denton US LLP** **Two World Financial Center** **New York, New York 10281** **(212) 768-6700**	**David Danovitch, Esq.** **Gersten Savage LLP** **600 Lexington Ave, 9th Floor** **New York, NY 10022** **(212) 752 9700**

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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 a smaller reporting company	Smaller Reporting Company ☒

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Units, each consisting of two shares of Common Stock, $0.001 par value per share, and a Warrant to purchase one share of Common Stock(2)	—	—	$ 5,000,000	$ 573.00
Shares of Common Stock included in the Units	—	—	—	—
Warrants to Purchase Shares of Common Stock included in the Units	—	—	—	—
Shares of Common Stock underlying the Warrants to Purchase Common Stock included in the Units	—	—	—	—
Representative's Common Stock Purchase Option	—	—	—	—
Shares of Common Stock underlying the Representative's Common Stock Purchase Option	—	—	—	—
Total	—	—	$ 5,000,000	$ 573.00

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the "Securities Act"). In accordance with Rule 457(o) under the Securities Act, the number of securities being registered and the maximum offering price per security are not included in this table. The registration fee payable hereunder has been previously paid.

(2) Public offering of Units, each Unit consisting of two shares of Common Stock, $0.001 par value, and a Warrant to purchase one share of Common Stock.

REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

TABLE OF CONTENTS

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION DATED MAY 21, 2012

$5,000,000 of Units

Units Consisting of Two Shares of Common Stock and One Warrant to Purchase One Share of Common Stock

This is a firm commitment public offering of ______ units, each unit consisting of two shares of common stock of CNS Response, Inc., par value $0.001 per share, and one warrant to purchase one share of common stock (and the shares of common stock issuable from time to time upon exercise of the offered warrants).

Our common stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) under the symbol "CNSOD.OB." We furthermore intend to file an application with FINRA with respect to the quotation on the OTCBB of the units and warrants contained in the units sold in this offering. As of May 16, 2012, the last reported sales price of our common stock on the OTCBB was $4.05 per share. There is presently no public market for our units or warrants.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 7 of this prospectus for a discussion that should be considered in connection with an investment in our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if the prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Unit	Total
Public offering price	$	$
Underwriting discounts and commissions[1]	$	$
Proceeds, before expenses, to CNS Response, Inc.	$	$

(1) The underwriters will receive compensation in addition to the discounts and commissions. See "Underwriting" for a full description of compensation payable to the underwriters.

The underwriters may also purchase up to an additional ______ units from us at the public offering price, less the underwriting discount, within 45 days from the date of this prospectus.

The underwriters expect to deliver our units to purchasers in the offering on or about , 2012.

Aegis Capital Corp **Cantor Fitzgerald & Co.**

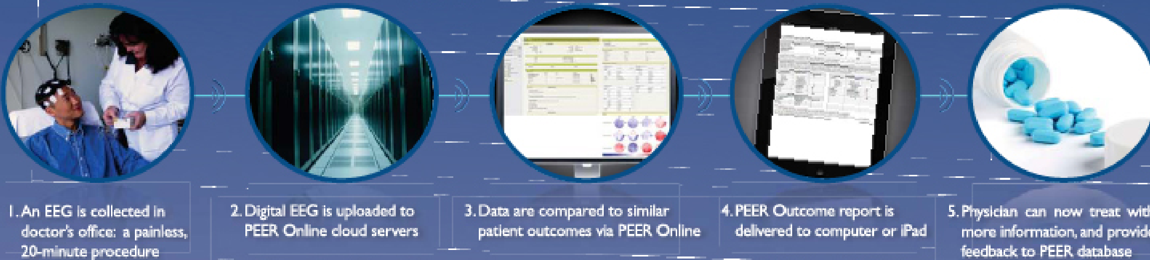
Noble Financial Capital Markets **Ascendiant Capital Markets, LLC**

The date of this prospectus is , 2012

TABLE OF CONTENTS

It's time to bring the power of information technology to improve mental health treatment

PEER Process



1. An EEG is collected in doctor's office: a painless, 20-minute procedure
2. Digital EEG is uploaded to PEER Online cloud servers
3. Data are compared to similar patient outcomes via PEER Online
4. PEER Outcome report is delivered to computer or iPad
5. Physician can now treat with more information, and provide feedback to PEER database

PEER Results

In 22 studies with over 1,000 patients, EEG has established a record of providing useful correlations to individual medication response, even in patients who have failed multiple treatments.

A recent example: a 12-week randomized, controlled, multi-site study of treatment resistant depression (averaging 4 medication failures) at Harvard, Stanford, Rush, Cornell, and other sites found that PEER Reports significantly outperformed STAR*D, one of the largest studies of treatment resistant depression patients.[1]

The difference, or separation, between PEER Reports and the STAR*D control group was 50% to 100% for the study's two primary endpoints, and significant for virtually all secondary endpoints. Results were highly statistically significant. The study was published in 2011 in the 50th anniversary issue of the Journal of Psychiatric Research.

Who benefits?

1. DeBattista et. al., Journal of Psychiatric Research, Volume 45, Number 1, January 2011.
2. Company estimate based on Analysis Group Economics Budget Impact Model, 2008; and Milliman Group, Chronic Conditions and Comorbid Psychiatric Disorders, July 2008.

TABLE OF CONTENTS

	Page
General Matters	ii
Use of Market and Industry Data	iii
Prospectus Summary	1
The Offering	3
Summary Consolidated Financial Data	5
Risk Factors	7
Cautionary Note Regarding Forward-Looking Statements	24
Use of Proceeds	25
Market for Common Equity and Related Stockholder Matters	27
Capitalization	30
Dilution	32
Selected Consolidated Financial Data	34
Management's Discussion and Analysis of Financial Condition and Results of Operations	36
Business	60
Management	75
Executive Compensation	83
Principal Stockholders	92
Related Party Transactions	97
Description of Securities	111
Shares Eligible for Future Sale	116
Underwriting	119
Legal Matters	123
Experts	123
Where You Can Find Additional Information	123
Index to Financial Statements	F-1

You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us or to which we have referred you. Neither we nor the underwriters have authorized anyone to provide you with information that is different. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, prospects, financial condition and results of operations may have changed since that date.

GENERAL MATTERS

Unless otherwise indicated, all references to "GAAP" in this prospectus are to United States generally accepted accounting principles.

Unless the context indicates otherwise, as used in this prospectus, the terms "the Company", "CNS Response", "we", "us", "our" and "our company" refer to CNS Response, Inc. and its subsidiaries. The CNS Response logo is a trademark of CNS Response, Inc. All other trademarks and service marks appearing in this prospectus are the property of their respective holders. All rights reserved.

Unless otherwise indicated, all share and per-share information in this prospectus have been adjusted for the 1-for-30 reverse split of our common stock, which was effective at 5:00 p.m. PDT on April 2, 2012.

Information contained in, and that can be accessed through, our web site *www.cnsresponse.com* shall not be deemed to be part of this prospectus or incorporated herein by reference and should not be relied upon by any prospective investors for the purposes of determining whether to purchase the units offered hereunder.

USE OF MARKET AND INDUSTRY DATA

This prospectus includes market and industry data that has been obtained from third party sources, including industry publications, as well as industry data prepared by our management on the basis of its knowledge of and experience in the industries in which we operate (including our management's estimates and assumptions relating to such industries based on that knowledge). Management's knowledge of such industries has been developed through its experience and participation in these industries. While our management believes the third party sources referred to in this prospectus are reliable, neither we nor our management have independently verified any of the data from such sources referred to in this prospectus or ascertained the underlying economic assumptions relied upon by such sources. Internally prepared and third party market forecasts, in particular, are estimates only and may be inaccurate, especially over long periods of time. In addition, the underwriters have not independently verified any of the industry data prepared by management or ascertained the underlying estimates and assumptions relied upon by management. Furthermore, references in this prospectus to any publications, reports, surveys or articles prepared by third parties should not be construed as depicting the complete findings of the entire publication, report, survey or article. The information in any such publication, report, survey or article is not incorporated by reference in this prospectus.

PROSPECTUS SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary does not contain all the information you should consider before investing in our securities. You should read the entire prospectus carefully before making an investment decision, including "Risk Factors" and the consolidated financial statements and the related notes. References in this prospectus to "CNS Response, Inc.," the "Company," "we," "our" and "us" refer to CNS Response, Inc. and our consolidated subsidiaries. For a definition of the technical industry terms used in this prospectus, please refer to the Glossary at the end of the prospectus.

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 disorders, addiction, anxiety disorders and attention deficit hyperactivity disorder (ADHD) can rarely be analyzed effectively by the treating physicians. Doctors are ordinarily forced to make prescription-related 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 they are even identified 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 previous courses of medication with the attendant 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 collected 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 34,000 clinical outcomes for 8,700 unique 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 spanning 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 prescribing effective medications for patients suffering from debilitating behavioral disorders such as depression, bipolar disorder, eating disorders, addiction, anxiety disorders and attention deficit hyperactivity disorder (ADHD).

This technology allows us to create and provide simple reports ("PEER Outcome Reports" or "PEER Reports") to medical professionals that summarize historical treatment results of specific medications for those patients with similar neurometric brain patterns. PEER Reports provide neither a diagnosis nor a specific treatment, but like all laboratory results, they provide objective, evidence-based information to help the prescriber in his or her 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 by contemplating 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 recognition by healthcare providers and patients of the benefit of using PEER Reports, 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 explore further these opportunities, although no relationships have been established to date. 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 U.S. Food and Drug Administration (FDA).

Clinical Services

In January 2008, we acquired our then largest clinical site, 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 PEER Online services into a medical practice. In addition, through NTC, we 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 PEER Online to patients and referring physicians in the local market. We intend to 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 PEER 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.

Corporate Information

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. The Company actively operates its businesses through CNS Response, Inc. (California) and Neuro-Therapy Clinic, Inc., which was acquired in January 2008.

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 into our prospectus.

THE OFFERING

Units we are offering	______ units, each unit consisting of two shares of common stock and a warrant to purchase one share of common stock. The units may not be separated into the underlying shares of common stock and warrants until the earlier of (1) the exercise in full of the underwriters' over-allotment option or (2) forty-five (45) days from the date of this offering; and thereafter, the units may be separable only upon the request of a holder. Each warrant will have an initial exercise price of $____ per share, will be exercisable upon separation of the units and will expire on _____________.
Common Stock we are offering	______ shares of common stock
Warrants we are offering	Warrants to purchase _________ shares of common stock
Common stock to be issued and outstanding after this offering(1)	______ shares or ______ shares if the warrants sold in this offering are exercised in full.
Use of proceeds after expenses	We expect to use up to approximately $1.7 million of the net proceeds of this offering to fund marketing, program implementation, and research and development projects and we expect to use approximately $1.45 million for the repayment of long outstanding accruals and accounts payable and to pay off a short-term loan. We intend to use the balance of the net proceeds for general corporate purposes. See "Use of Proceeds."
Risk Factors	You should read the "Risk Factors" section of this prospectus beginning on page 7 for a discussion of factors to consider carefully before deciding whether to purchase our securities.
OTC Bulletin Board Trading Symbol	Our common stock is quoted on the OTC Bulletin Board under the symbol "CNSOD.OB". We furthermore intend to file an application with FINRA with respect to the quotation on the OTCBB of the units and warrants contained in the units sold in this offering.

(1) The number of shares of our common stock to be issued and outstanding after this offering is based on 1,874,175 shares of common stock issued and outstanding as of April 30, 2012, and excludes:

- 566,532 shares of common stock issuable upon the exercise of options issued and outstanding as of April 30, 2012, with exercise prices ranging from $3.00 to $36.00 per share and a weighted average exercise price of $17.32 per share; and
- 2,194,270 shares of common stock issuable upon the exercise of warrants issued and outstanding as of April 30, 2012, with exercise prices ranging from $3.00 to $54.00 per share and a weighted average exercise price of $4.94 per share.

The number of shares of our common stock to be issued and outstanding after this offering includes 2,786,894 shares of common stock issuable upon conversion of our convertible notes (including accrued interest) outstanding as of April 30, 2012 at a conversion price of $3.00 per share. The notes will be amended pursuant to a series of agreements described under "Capitalization" (the "Conversion Agreements") to provide for the mandatory conversion upon a public offering of at least $5 million.

Finally, the amounts in the table above do not include (i) 2,315,398 shares of common stock issuable upon the exercise of warrants that will be issued as consideration to the holders of convertible notes and related warrants pursuant to the terms of the Conversion Agreements, (ii) 11,667 shares of common stock issuable upon the exercise of warrants that will be issued to placement agents pursuant to the Agreement to Amend Placement Agent Warrants, as described under "Capitalization", (iii) ______ shares issuable upon the exercise of warrants offered hereby or (iv) the shares of common stock issuable upon the exercise of a

common stock purchase option that we have agreed to issue to the representative of the underwriters in connection with this offering as described under "Underwriting."

Unless otherwise indicated, all information in this prospectus assumes a public offering price of $____ per unit.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present a summary of certain historical consolidated financial information. You should read the following summary consolidated financial data in conjunction with "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, all included elsewhere in this prospectus. The summary consolidated financial data for the years ended September 30, 2011 and 2010 and six months ended March 31, 2012 and 2011 has been derived from our audited consolidated financial statements and unaudited consolidated condensed financial statements, respectively each of which are included elsewhere in this prospectus.

	Six Months Ended March 31		Year Ended September 30	
	2012	2011	2011	2010
	(unaudited)			
	(all numbers in thousands except per share data)			
Consolidated Statements of Operations				
Net Sales	$ 398	$ 340	$ 746	$ 639
Cost of Sales	75	73	147	135
Gross Profit	323	267	599	504
Operating Expenses:				
Selling, general and administrative	2,757	2,728	5,503	5,888
Research and development	412	591	925	1,121
Total Operating Expenses	3,169	3,319	6,428	7,009
Income/(Loss) from Operations	(2,846)	(3,052)	(5,829)	(6,505)
Other Income (Expense):				
Interest income (expense), net	(2,618)	(3,956)	(7,567)	(361)
Finance fees (expense)	(151)	(289)	(349)	(213)
Loss on Extinguishment of debt	—	—	(1,968)	(1,094)
Gain (Loss) on derivative liabilities	(5,502)	254	6,827	—
Offering costs	(8)	—	(438)	—
Other non-operating income	—	—	459	—
Other income (expense) – net	(8,279)	(3,991)	(3,036)	(1,668)
Loss Before Income Taxes	(11,125)	(7,043)	(8,865)	(8,173)
Income Taxes	1	1	1	1
Net Loss	(11,126)	(7,044)	(8,866)	(8,174)
Net Loss attributable to common stockholders				
- basic	$ (5.94)	$ (3.77)	$ (4.74)	$ (4.69)
- diluted	$ (5.94)	$ (3.77)	$ (4.74)	$ (4.69)
Weighted average number of common shares outstanding				
- basic	1,873,766	1,867,690	1,869,038	1,742,570
- diluted	1,873,766	1,867,690	1,869,038	1,742,570

	As of March 31, 2012		
	Actual	Pro forma[(1)]	Pro forma as adjusted[(2)]
		(in thousands)	
Consolidated Balance Sheet Summary Data			
Cash and cash equivalents	$ 170	$ 170	$ 3,094
Working capital (deficiency)	(21,928)	(2,216)	1,834
Total assets	705	705	3,305
Accrued Interest on Notes	690	—	—
Derivative Liability	12,973	—	—
Long-term debt, including current portion	13	13	13
Senior secured convertible promissory notes (October Notes)	3,024	—	—
Subordinated secured convertible promissory notes (January Notes and 2011 Bridge Notes)	3,017	—	—
Unsecured convertible promissory note	8	—	—
Total stockholders' equity (deficiency)	$(21,876)	$ (2,164)	$ 1,886

(1) The "pro forma" amounts reflect the conversion of all of our convertible promissory notes and accrued interest outstanding as of March 31, 2012. This includes October Notes in the aggregate principal amount of $3,024,000, January Notes in the aggregate principal amount of $2,500,000, 2011 Bridge Notes in the aggregate principal amount of $2,000,000 and Unsecured Note of $90,000 as of March 31, 2012 that are being converted to equity pursuant to the Conversion Agreements described under "Capitalization — Agreements in Connection with Qualified Offering".

(2) The "pro forma as adjusted" amounts reflect the above conversion as well as the sale of ________ units in this offering at an assumed public offering price of $____ per unit (assuming a $5 million capital raise from this offering), as follows:

(a) Adjustments to cash from the (i) $5 million capital including deductions of the estimated underwriting discounts and estimated offering expenses (but not including deferred offering costs, commissions and expenses) of $0.63 million payable by us, resulting in a net increase to cash of $4.37 million; and (ii) repayment of $1.45 million of long outstanding accruals and accounts payable; and

(b) The remainder of the $4.37 million (approximately $2.92 million) is reduced by the offering costs comprised of the deferred offering costs, commissions and expenses of $0.32 million, resulting in an offset to additional paid-in-capital of approximately $0.32 million. See "Capitalization."

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 prospectus before purchasing our securities. 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 your investment.

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 are required to finance our cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations. As of March 31, 2012, we had approximately $170 thousand in cash and cash equivalents at hand. While we received $100 thousand in the form of a short-term demand note in April to be repaid upon the consummation of this offering, as of April 30, 2012, we had approximately $50 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 be required 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 an ongoing 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 March 31, 2012, we had liabilities of $22.6 million and assets of only $0.7 million. We had a working capital deficiency of $21.9 million. Included in our liabilities are $13.0 million in derivative liabilities (as determined under ASC 815) associated with our convertible notes and associated warrants. Furthermore, as of March 31, 2012, 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 will agree to convert their notes in connection with a public offering which yields gross proceeds of at least $5 million. If we are not successful in consummating such an offering, our convertible notes would remain outstanding. In addition, since October 12, 2011, we have issued $2.0 million in 2011 Bridge Notes and a subordinated unsecured note for $90 thousand. Holders of these notes will also agree to convert their notes in connection with a public offering which yields gross proceeds of at least $5 million. If we are not successful in consummating such an offering, such convertible notes would also remain outstanding.

We currently have no resources to repay such senior and subordinated secured and unsecured notes and we will be required either to raise additional funds or to 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 March 31, 2012, our accumulated deficit was approximately $53 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 already 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 and Drug Administration (FDA) believes that rEEG and, potentially, our PEER Online service, constitute 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 commence an enforcement action against us. The FDA has informed us that our marketing of our rEEG 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 dialogued 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 further 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 made contact with 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 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 2011, the Company introduced its Psychiatric Encephalography Evaluation Registry ("PEER") 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.

In March 2012, the U.S. Food and Drug Administration (FDA) responded to our proposal for a clinical trial of an Investigational Device, PEER Interactive, designed to support physicians in identifying the best treatments for certain mental illnesses. In response to the comments provided by the FDA, we intend to revise the protocol and launch a clinical trial with Walter Reed National Military Medical Center (WRNMMC) and several other sites, partnering with military physicians treating 2,000 patients diagnosed with mental health conditions such as depression, post-traumatic stress disorder (PTSD), mild traumatic brain injury (mTBI) and several other disorders.

WRNMMC has indicated that it will lead the study, following approval of the final protocol, as modified in accordance with the FDA guidance, by the cognizant military Institutional Review Board (IRB). Other military treatment facilities are also expected to participate.

CNS Response sought advice from the FDA with respect to its clinical trial protocol prior to its intended submission in the future of a marketing application under 510(k). The FDA commented on the submission indicating that as proposed, PEER Interactive would require pre-market approval, although it indicated clearly that under certain circumstances, the product could shift to the 510(k) pathway. The FDA provided additional comments and suggestions relating to the proposed trial, which the Company intends immediately to incorporate into its revised protocol. The protocol will then be submitted to the IRB at WRNMMC and the trial is anticipated to commence immediately following IRB approval. However, we have not entered into a definitive agreement with WRNMMC relating to the conduct of a trial. WRNMMC may decide not to proceed with a trial with us or, once it has started, may terminate the trial at any time. Furthermore, we cannot predict

the results or the success of any trial, if and once completed, and can offer no assurances that the FDA will not continue to insist on pre-market approval or that data that will be included in our future submissions to the FDA do not raise any important new issues, which would, thereby, materially affect safety or effectiveness of our rEEG service.

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 the 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 medical 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 would 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 will 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 that would prevent 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 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 even 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 will contract with 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 five issued U.S. patents, as well as issued patents in Australia, Canada, 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 any degree of 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 expend. 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 nondisclosure agreements and detecting unauthorized use of our technology is difficult and we may, therefore, be unable to determine whether piracy of our technology has actually 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 to our reputation, disruption to our business, could 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. For a discussion of the employment agreements with our executive officers, please refer to "Executive Compensation — Employment Agreements."

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 (for more information, please see the risk factor entitled The United States Food and Drug Administration (FDA) believes that rEEG and, potentially, our PEER Online service, constitute 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 commence an enforcement action against us. The FDA has informed us that our marketing of our rEEG services without prior approval or re-classification by the FDA constitutes a violation of the Federal Food, Drug and Cosmetic Act). 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 and Colorado, 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 This Offering and An Investment In Our Common Stock

Even with the proceeds from this offering, we will need significant additional capital in the future. If additional capital is not available, we may not be able to continue to operate our business pursuant to our business plan or we may have to discontinue our operations entirely.

Based on our proposed use of proceeds, we need significant additional financing after we close this offering, which we may seek to raise through, among other things, public and private equity offerings. Any equity financings will be dilutive to existing stockholders and additional financing may not be available on acceptable terms, or at all. If additional capital is not available, we may not be able to continue to operate our business pursuant to our business plan or we may have to discontinue our operations entirely.

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 currently quoted on the OTCBB under the symbol “CNSOD.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.

There is no public market for the units and the warrants to purchase common stock being sold in this offering and we cannot assure that you will obtain sufficient liquidity in your holdings of our units and warrants.

There is no established public trading market for the units and warrants contained in the units being sold in this offering. We intend to file an application with FINRA with respect to the quotation on the OTCBB of the units and warrants contained in the units sold in this offering. We cannot assure you that this quotation will ever occur, or, if it does, that you will obtain sufficient liquidity in your holdings of our units and warrants. Further, the existence of the units and warrants may act to reduce both the trading volume and the trading price of our common stock.

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.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

The public offering price is substantially higher than the net tangible book value per share of our common stock. Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the book value of our tangible assets after subtracting our liabilities. As a result, investors purchasing common stock in this offering will incur immediate dilution of $____ per share, based on an assumed public offering price of $____ per unit. Further, investors purchasing common stock in this offering will contribute approximately ____% of the total amount invested by stockholders since our inception, but will own approximately ____% of the shares of common stock outstanding. See “Dilution.”

This dilution is primarily due to the fact that some of our investors who purchased shares prior to this offering paid substantially less than the price offered to the public in this offering when they purchased their shares. We have previously issued shares of our common stock at a price per share ranging from $0.30 to $36.00. In addition, as of April 30, 2012, options to purchase 566,532 shares of our common stock at a weighted average exercise price of $17.32 per share and warrants exercisable for up to 2,194,270 shares of

our common stock at a weighted average exercise price of $4.94 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 April 30, 2012, may be converted into 2,786,894 shares of our common stock at a conversion price of $3.00 per share. The holders of notes will agree to convert them in connection with the closing of this offering, as long as the offering yields gross proceeds of at least $5 million. See "*Capitalization — Agreements in connection with this Offering*." Because additional interest will accrue on such notes until closing, additional shares of common stock will be issued in connection with the conversion. As consideration for the holders' agreeing to amend and convert the notes, and amend the related warrants, we have agreed to issue to the holders warrants to purchase 2,315,398 shares of common stock. We have also agreed to issue warrants to purchase 11,667 shares of common stock to holders of placement agent warrants at the closing of an offering yielding gross proceeds of at least $5 million for agreeing to amend their placement agent warrants. Finally, we have agreed to issue to the representative of the underwriters in this offering an option to purchase a number of shares corresponding to __% of the number of shares sold in this offering. The conversion of the notes and exercise of any of these options or warrants will result in additional dilution.

As a result of the dilution to investors purchasing units in this offering, investors may receive significantly less than the purchase price paid in this offering, if anything, in the event of a liquidation of our company.

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

As of April 30, 2012, we had 1,874,175 shares of common stock issued and outstanding. In addition, as of April 30, 2012, options to purchase 566,532 shares of our common stock at a weighted average exercise price of $17.32 per share and warrants exercisable for up to 2,194,270 shares of our common stock at a weighted average exercise price of $4.94 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 April 30, 2012, may be converted into 2,786,894 shares of our common stock at a conversion price of $3.00 per share. The holders of notes will agree to convert them in connection with the closing of a public offering, as long as the offering yields gross proceeds of at least $5 million. In addition, we have an effective registration statement (File No. 333-164613) covering the resale of 2,195,995 shares, including 613,634 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 and purchasers in this offering could lose a portion of their investments.

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 stock 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). Our securities constitute "penny stock" within the meaning

of the rules. 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 broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds, including for any of the purposes described in the section of this prospectus entitled "Use of Proceeds." The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

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 49% of our issued and outstanding common stock prior to the offering to which this prospectus relates. 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 49% of our issued and outstanding common stock prior to the offering to which this prospectus relates. 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, 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 our inability to raise additional funds to support operations and capital expenditures;
- our inability to achieve greater and broader market acceptance of our products and services in existing and new market segments;
- our inability to 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;
- an unsuccessful clinical trial with Walter Reed National Military Medical Center and proceeds from such clinical trial that fall short of our expectations;
- the possible imposition of fines or penalties by FDA for alleged violations of its rules or regulations;
- 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.

USE OF PROCEEDS

We estimate that the net proceeds of the sale of the units that we are offering will be approximately $4.05 million, assuming no exercise of the overallotment option and a public offering price of $____ per unit, and after deducting estimated underwriting discounts and estimated offering expenses of $0.40 million and $0.55 million, respectively, payable by us. The public offering price may be lower than $____ per unit, in which case we will have less funds available to us for the uses listed below. These amounts do not include the proceeds which we may receive in connection with the exercise of the warrants offered hereby. We cannot predict when or if these warrants will be exercised, and it is possible that these warrants may expire and never be exercised.

The business objective of this offering is to support the execution of our growth strategy to become a global provider of PEER Reports which we believe over time will become a standard of care in the treatment of mental illness. The events or initiatives that are critical to successfully achieving this objective are set forth herein in the section entitled, “Business — Neurometric Information Services”. The achievement and timing of these events and initiatives are not predictable and will depend on many variables, including our ability to implement our business plan and achieve widespread acceptance of our PEER Online Services. We will need substantial additional funds before we can increase demand for our PEER Online Services, and expect to engage in additional equity and/or debt financing in the near term.

We estimate that we will use the proceeds of this offering as follows:

Marketing and Program Implementation	$1.20 million(1)
Research and Development	$0.50 million(2)
Accounts payable and accrued expenses	$1.35 million(3)
Repayment of short-term note	$0.10 million(4)
General working capital	$0.90 million(5)
Total	$4.05 million

(1) Approximately $1.20 million will be spent on direct-to-consumer advertising, marketing and program implementation.

(2) Approximately $0.50 million will be spent to improve our technological capabilities and information and enhancement of the PEER Online platform, clinical development and physician training, the Investigational Device Exemption Study and enhancing a quality assurance and regulatory affairs function.

(3) Approximately $1.35 million will be spent on the repayment of long outstanding accruals and accounts payable.

(4) We received a short-term loan of $100,000 from our director John Pappajohn on April 26, 2012. This loan, evidenced by an interest-free demand note, is expected to be repaid immediately upon the consummation of the offering.

(5) The remaining $0.90 million are expected to be used for general corporate purposes, such as general and administrative expenses, capital expenditures, working capital, prosecution and maintenance of our intellectual property and the potential investment in technologies or products that complement our business.

The amounts and timing of our actual expenditures will depend upon numerous factors, including, without limitation, the progress of our sales, research, development and commercialization efforts of new products, our existing and future strategic collaborations and partnerships and our operating costs and expenditures. Accordingly, our management will have significant flexibility in the expenditure of the net proceeds of this offering.

As indicated above, one of the purposes of the offering is to obtain additional working capital to fund operating expenses. We experienced negative net cash flows from operating activities in the fiscal years ended September 30, 2011 and 2010. Although we expect that sales of our services will increase such that we may be able to operate our business profitably, we face numerous risks that may delay or prevent us from doing so. As a result, we may be required to raise additional capital to fund our operations.

To the extent that cash flows from operations are insufficient to fund our operations, the net proceeds of the offering will be used to fund our operations. The estimated net proceeds of $4.05 million (assuming no exercise of the overallotment option), together with assumed proceeds of approximately $1 million from our clinical trial with the military as well as an estimated $0.4 million in other revenue, are expected to fund our operations at least through February 2013. If our estimates or assumptions prove to be inaccurate and/or the military decides not to proceed with a clinical trial with us, we may require additional financing sooner than February 2013 to fund our operations.

As the costs and timing of product development and launch are subject to substantial risks and can often change, we may change the allocation of use of these proceeds as a result of contingencies such as the progress and results of our development activities, the continuation of our existing collaborations and the establishment of new arrangements, our cash requirements and regulatory or competitive developments. We may also use a portion of the net proceeds to expand our business through acquisitions of other companies, assets or technologies and to fund joint ventures with development partners. At this time, we do not have any commitment to any specific acquisitions or to fund joint ventures. Alternatively, we may acquire another company with payment through securities, including debt.

Pending use of the proceeds from this offering as described above or otherwise, we intend to invest the net proceeds in short-term interest-bearing, investment-grade securities, certificates of deposit or treasury or other government agency securities that can be liquidated at any time without penalties, or are readily convertible to cash, at our discretion.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Common Stock

Our common stock is currently quoted on the OTC Bulletin Board under the symbol CNSOD.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 information in the table has been adjusted for the 1-for-30 reverse stock split. 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	$ 36.00	$ 15.00
Second Quarter	$ 36.00	$ 15.60
Third Quarter	$ 34.50	$ 12.00
Fourth Quarter	$ 28.50	$ 1.50
Year Ended September 30, 2011		
First Quarter	$ 19.50	$ 4.50
Second Quarter	$ 14.40	$ 3.60
Third Quarter	$ 18.00	$ 7.50
Fourth Quarter	$ 8.10	$ 3.00
Year Ended September 30, 2012		
First Quarter	$ 7.50	$ 1.50
Second Quarter	$ 6.00	$ 2.10
Third Quarter (through May 16, 2012)	$ 8.00	$ 4.05

On May 16, 2012, the closing sales price of our common stock as reported on the OTC Bulletin Board was $4.05 per share. As of April 30, 2012, there were 296 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.

Our average daily volume for the twelve months ended April 30, 2012 was 1,249 shares per day (adjusted for the reverse stock split) with no trades occurring on 143 out of 252 trading days. Consequently, management believes that the prices quoted on the OTC Bulletin Board or the OTCQB may not accurately reflect the value of our common shares.

Dividends

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. There are no contractual limitations regarding the payment of dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding our 2006 Stock Incentive Plan as of March 31, 2012. This plan has been frozen and no further securities will be granted under this plan. The table does not include securities available for future issuance under our 2012 Omnibus Incentive Compensation Plan, which is subject to stockholder approval.

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	523,862	$ 18.49	0
Equity compensation plans not approved by security holders	0	$ 0	0
Total	523,862	$ 18.49	0

A Reverse Split of our Common Stock Was Effected at 5 pm PDT on April 2, 2012.

At a Special Stockholders Meeting on January 27, 2012, our stockholders approved a proposal to amend our Certificate of Incorporation for the purposes of effecting a reverse stock split of our common stock at a specific ratio within a range from 1 for 10 to 1 for 50 and simultaneously with the reverse split, reducing the number of authorized shares of common stock available for issuance from 750,000,000 to 100,000,000, and to authorize our Board of Directors to determine, in its discretion, the timing of the amendment and the specific ratio of the reverse stock split. On March 28, 2012, our Board set a reverse split ratio of 1-for-30. On March 30, 2012, we filed an amendment to our Certificate of Incorporation to effect the reverse split and change in authorized shares, which became effective at 5:00 pm PDT on April 2, 2012 (the “Effective Time”).

At the Effective Time, immediately and without further action by our stockholders, every 30 shares of our common stock issued and outstanding immediately prior to the Effective Time were automatically converted into one share of our common stock. No fractional shares of our common stock were issued as a result of the reverse split. In those cases where the reverse split would otherwise have left a stockholder with a fraction of a share, the number of shares due to the stockholder was rounded up. All outstanding options and warrants to purchase shares of our common stock were adjusted as a result of the reverse split. In particular, the number of shares issuable upon the exercise of each instrument was reduced, and the exercise price per share, if applicable, was increased, in accordance with the terms of each instrument and based on the ratio of the reverse split.

The reverse split was effected with the goal of obtaining a price per share of at least $4.00 in the offering to which this prospectus relates, to enable us to list our shares on the Nasdaq Capital Market. The offering price per share will be determined by negotiations between the company and its lead underwriter, based on a number of factors, and may have no relationship to the past price of the common stock on the OTC Bulletin Board. However, since the underwriters currently intend to offer a lesser number of securities in this offering as had initially been contemplated, the Company will not satisfy the initial listing requirements of the Nasdaq Capital Market, even at the assumed offering price of $____ per unit (or $____ per share). Accordingly, our shares will not qualify for listing on the Nasdaq Capital Market, which the reverse split was intended to facilitate.

Units and Warrants Included in Units

There is no established public trading market for the units and warrants contained in the units being sold in this offering. We intend to file an application with FINRA with respect to the quotation on the OTCBB of the units and warrants contained in the units sold in this offering. We cannot assure you that this quotation will ever occur, or, if it does, that you will obtain sufficient liquidity in your holdings of our units and warrants. Further, the existence of the units and warrants may act to reduce both the trading volume and the trading price of our common stock.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2012:

- on an actual basis, reflecting only the 1-for-30 reverse stock split and change in authorized common stock;
- on a pro forma basis, to give effect to the conversion of all of our convertible promissory notes outstanding as of March 31, 2012. This includes $3,024,000 of senior secured notes, $4,500,000 of subordinated secured notes and a $90,000 unsecured note that will be converted to equity pursuant to the Conversion Agreements described below under "Agreements in Connection with Qualified Offering"; and
- on a pro forma basis to give effect to such conversion and as further adjusted to give effect to (a) the receipt by us of net proceeds of approximately $4.05 million from this offering, assuming the sale of all units that are offered pursuant to this prospectus at an offering price of $____ per unit (not including the overallotment option), and after deducting estimated underwriting discounts and estimated offering expenses payable by us of $0.40 million and $0.55 million, respectively; (b) repayment of $1.35 million of long outstanding accruals and accounts payable; (c) repayment of a short-term, interest free loan of $100,000 from our director John Pappajohn made to us on April 26, 2012 and (d) the issuance of _______ units in this offering.

You should read the following table in conjunction with our financial statements and related notes, "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", appearing elsewhere in this prospectus.

	As of March 31, 2012		
	Actual	Pro forma	Pro forma as adjusted[1]
	(in thousands, except share and per share data)		
Long-term debt, including current portion	$ 13	$ 13	$ 13
Common stock, $0.001 par value: 100,000,000 shares authorized, 1,874,175 shares issued and outstanding, actual; 100,000,000 shares authorized, 4,642,036 issued and outstanding pro forma; 100,000,000 shares authorized, _______ shares issued and outstanding, pro forma as adjusted	2	5	____
Additional paid-in capital	31,484	39,785	____
Accumulated deficit	(53,362)	(41,956)	(41,956)
Total stockholders' equity (deficiency)	(21,876)	(2,166)	____
Total capitalization	$(21,889)	$ (2,179)	$ ____

(1) Each $0.50 increase (decrease) in the assumed offering price of $____ per unit would increase (decrease) the amount of pro forma as adjusted cash, cash equivalents and available-for-sale securities; additional paid-in capital; total stockholders' equity (deficiency) and total capitalization by approximately $____ million, in each case assuming the conversion of all convertible notes outstanding as of March 31, 2012, and assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The amounts shown in the table above do not include:

- 566,532 shares of common stock issuable upon the exercise of options issued and outstanding as of March 31, 2012, with exercise prices ranging from $3.00 to $36.00 per share and a weighted average exercise price of $17.32 per share; and
- 2,194,270 shares of common stock issuable upon the exercise of warrants issued and outstanding as of March 31, 2012, with exercise prices ranging from $3.00 to $54.00 per share and a weighted average exercise price of $4.94 per share.

In addition, the amounts shown in the "Actual" column in the table above do not include 2,767,861 shares of common stock issuable upon conversion of principal and interest issued and outstanding as of March 31, 2012 under our convertible notes at a conversion price of $3.00 per share. The holders of notes will agree to convert them in connection with the closing of this offering, as long as the offering yields gross proceeds of at least $5 million.

The amounts shown in the "Pro forma" and "Pro forma as adjusted" columns assume that all of our convertible notes outstanding as of March 31, 2012 will be converted immediately prior to the offering in accordance with the terms of the Conversion Agreements (as described under "Agreements in Connection with Qualified Offering" below). Under the Conversion Agreements, the ratchet features would be removed from the convertible debt and related warrants, as a result of which the derivative liabilities would be treated as equity under ASC 815-40.

Finally, the amounts in the table above do not include (i) 2,315,398 shares of common stock issuable upon the exercise of warrants that will be issued as consideration to the holders of convertible notes and related warrants pursuant to the terms of the Conversion Agreements as described below, (ii) 11,667 shares of common stock issuable upon the exercise of warrants that will be issued to placement agents pursuant to the Agreement to Amend Placement Agent Warrants, as described below, (iii) the shares of common stock issuable upon the exercise of a common stock purchase option that we have agreed to issue to the representative of the underwriters in connection with this offering as described under "Underwriting."

Agreements in Connection with Qualified Offering

In anticipation of a public offering of $5 million or greater (which we refer to as the "Qualified Offering"), we have entered into the following agreements with holders of our convertible notes and warrants:

1. Holders of our convertible notes (more specifically, the October Notes, January Notes, 2011 Bridge Notes and a $90,000 unsecured note described further below) and warrants to purchase shares of our common stock issued in connection with such notes and the related guaranties, will enter into agreements with us effective May 4, 2012, which we refer to as the "Conversion Agreements." These notes and warrants are further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — The Private Placement — 2010 & 2011 Private Placement Transactions." Pursuant to the Conversion Agreements, the holders will agree to amend their notes and warrants and convert their notes. The amendments will add a mandatory conversion provision to the notes. The related conversion will be effective immediately prior to the closing of this offering. Assuming this offering had been consummated on March 31, 2012, notes in the aggregate principal amount and accrued interest at March 31, 2012 of approximately $8,303,600 would have been converted into 2,767,861 shares of our common stock. As consideration for the above amendments and conversions, we expect to issue warrants to purchase an aggregate of 2,315,398 shares of our common stock to holders of our notes and related warrants, with each holder receiving a warrant to purchase a number of shares of common stock corresponding to 50% of the number of shares issuable upon conversion of the principal amount and accrued and unpaid interest of his or her notes (with such warrant having the same terms as the warrants included in the units offered hereby) and the holders of the October Notes and January Notes receiving an additional warrant to purchase a number of shares of common stock corresponding to 50% of the number of shares issuable upon conversion of the principal amount of his or her notes (with such warrants having the same terms as their existing warrants, as amended).

2. Holders of 100% of Placement Agent Warrants initially issued to Monarch Capital Group LLC and Antaeus Capital, Inc. in 2010 and 2011 (as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — The Private Placement — 2010 & 2011 Private Placement Transactions") will agree to amend such warrants to remove full ratchet anti-dilution protection from the terms of the warrants. We refer to this agreement as the "Agreement to Amend Placement Agent Warrants." This amendment is conditioned on the closing of this offering, provided that this offering yields gross proceeds to us of at least $5 million, and is effective immediately prior to the closing of this offering. As consideration for this amendment, each holder will receive 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.

DILUTION

If you purchase our common stock in this offering, your interest will be diluted to the extent of the difference between the offering price per share and our pro forma as adjusted net tangible book value per share of our common stock after this offering and after giving effect to the conversion of all of our outstanding convertible notes in connection with this offering. Our net tangible book value as of March 31, 2012 was a deficit of $(21,875,900) million, or ($11.67) per share based on 1,874,175 shares of our common stock issued and outstanding on such date, representing the amount of our tangible assets less our total liabilities. On a per share basis, the net tangible book value is divided by the number of shares of common stock issued and outstanding as of March 31, 2012. For purposes of this calculation, the entire purchase price for the unit is being allocated to the common stocks contained in the unit.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering. After giving effect to the conversion of all of our convertible notes outstanding as of March 31, 2012 in the aggregate principal amount (plus interest accrued to such date) of $8,303,600 into 2,767,861 shares, and net adjustments to derivative liability (as determined under ASC 815) and note discount of $11,406,900, pursuant to the Conversion Agreements described under "Capitalization — Agreements in Connection with our Qualified Offering" above, our pro forma net tangible book value as of March 31, 2012 would have been approximately $(2,165,400), or $(0.47) per share. After further giving effect to the sale of _______ units that we are offering pursuant to this prospectus, assuming a public offering price of $____ per unit and no exercise of the overallotment option, and after deducting estimated underwriting discounts and estimated offering expenses payable by us in the amount of $0.40 million and $0.55 million, respectively, our pro forma as adjusted net tangible book value as of March 31, 2012 would have been approximately $____ million, or approximately $____ per share of common stock. This amount represents an immediate increase in net tangible book value of $____ per share to our existing stockholders and an immediate dilution in net tangible book value of approximately $____ per share to new investors purchasing shares of common stock in this offering (assuming a public offering price of $____ per unit). We determine dilution by subtracting the pro forma as adjusted net tangible book value per share from the amount of cash that a new investor paid for a share of common stock.

The following table illustrates this dilution:

Assumed public offering price per unit		$____
Net tangible book value per share as of March 31, 2012	$(11.67)	
Increase in net tangible book value per share attributable to the conversion of notes in the aggregate principal amount (plus accrued interest) of approx. $8,303,600 and associated derivative liability and note discount adjustments of net $11,406,900	$ 11.21	
Pro forma net tangible book value per share as of March 31, 2012 after giving effect to such conversion	$ (0.47)	
Increase in net tangible book value per share attributable to this offering	$ ____	
Pro forma as adjusted net tangible book value per share as of March 31, 2012 after giving effect to such conversion and this offering		$____
Dilution in net tangible book value per unit to new investors		$____

A $0.50 increase (decrease) in the assumed offering price of $____ per unit, would increase (decrease) our pro forma as adjusted net tangible book value per share by $____ $____ and the dilution per share to new investors by $____ $____, in each case assuming that all convertible notes outstanding as of December 2011 are converted, and assuming the number of shares offered, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

The foregoing illustration does not reflect potential dilution from the exercise of outstanding options or warrants to purchase shares of our common stock or potential dilution from the exercise of the warrants to purchase shares of common stock, which are included as part of the units in this offering.

The following table summarizes, as of March 31, 2012, the differences between the number of shares of common stock purchased from us, the total consideration paid to us in cash and the average price per share that existing stockholders and new investors paid. We have previously issued shares of our common stock at a price per share ranging from $0.30 to $36.00. The calculation below is based on an assumed offering price of $____ per unit, before deducting estimated placement agents' fees and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price per Share
	Number	Percent	Amount	Percent	
Existing Stockholders	1,874,175	%	$ 25,116,800	%	$ 13.40
Converting Noteholders	2,767,228	%	$ 8,303,600	%	$ 3.00
New Investors	______	___%	$ ______	___%	$ ___
Total	______	100%	$ ______	100%	$ ___

The foregoing tables and calculations are based on the number of shares of our common stock issued and outstanding as of March 31, 2011 and exclude:

- 566,532 shares of common stock issuable upon the exercise of options issued and outstanding as of March 31, 2012, with exercise prices ranging from $3.00 to $36.00 per share and a weighted average exercise price of $17.32 per share;
- 2,194,270 shares of common stock issuable upon the exercise of warrants issued and outstanding as of March 31, 2012, with exercise prices ranging from $3.00 to $54.00 per share and a weighted average exercise price of $4.94 per share.

In addition, actual net tangible book value per share excludes the effect of:

- 2,767,861 shares of common stock issuable upon conversion of principal and interest issued and outstanding as of March 31, 2012 under our convertible notes at a conversion price of $3.00 per share.

Since March 31, 2012, 29,830 warrants with exercise prices ranging from $43.20 to $54.00 have expired. Furthermore, the tables and calculations above exclude 2,315,398 shares of common stock issuable upon the exercise of warrants that will be issued as consideration to the holders of convertible notes and related warrants pursuant to the terms of the Conversion Agreements described under "Capitalization — Agreements in Connection with Qualified Offering," 11,667 shares of common stock issuable upon the exercise of warrants to placement agents pursuant to the Agreement to Amend Placement Agent Warrants described under "Capitalization — Agreements in Connection with Qualified Offering," as well as _____ shares of common stock issuable upon the exercise of a common stock purchase option that we have agreed to issue to the representative of the underwriters in connection with this offering as described under "Underwriting."

To the extent options or warrants outstanding as of March 31, 2012 have been or may be exercised or additional shares are otherwise issued, there may be further dilution to new investors. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected financial data together with our consolidated financial statements and the related notes beginning at page F-1 of this prospectus and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this prospectus. We have derived the consolidated statements of operations data for the years ended September 30, 2011 and 2010 and the consolidated balance sheet data as of September 30, 2011 and 2010 from our audited financial statements. We have derived the unaudited consolidated condensed statements of operations data for the six months ended March 31, 2012 and 2011 and the consolidated balance sheet data as of March 31, 2012 and 2011 from our unaudited consolidated condensed financial statements. These financial statements are included elsewhere in this prospectus. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Six Months Ended March 31		Year Ended September 30	
	2012	2011	2011	2010
	(unaudited)			
	(all numbers in thousands except per share data)			
Consolidated Statements of Operations				
Net Sales	$ 398	$ 340	$ 746	$ 639
Cost of Sales	75	73	147	135
Gross Profit	323	267	599	504
Operating Expenses:				
Selling, general and administrative	2,757	2,728	5,503	5,888
Research and development	412	591	925	1,121
Total Operating Expenses	3,169	3,319	6,428	7,009
Income/(Loss) from Operations	(2,846)	(3,052)	(5,829)	(6,505)
Other Income (Expense):				
Interest income (expense), net	(2,618)	(3,956)	(7,567)	(361)
Finance fees (expense)	(151)	(289)	(349)	(213)
Loss on Extinguishment of debt	—	—	(1,968)	(1,094)
Gain (Loss) on derivative liabilities	(5,502)	254	6,827	—
Offering costs	(8)	—	(438)	—
Other non-operating income	—	—	459	—
Other income (expense) – net	(8,279)	(3,991)	(3,036)	(1,668)
Loss Before Income Taxes	(11,125)	(7,043)	(8,865)	(8,173)
Income Taxes	1	1	1	1
Net Loss	(11,126)	(7,044)	(8,866)	(8,174)
Net Loss attributable to common stockholders				
- basic	$ (5.94)	$ (3.77)	$ (4.74)	$ (4.69)
- diluted	$ (5.94)	$ (3.77)	$ (4.74)	$ (4.69)
Weighted average number of common shares outstanding				
- basic	1,873,766	1,867,690	1,869,038	1,742,570
- diluted	1,873,766	1,867,690	1,869,038	1,742,570

	As of March 31,		As of September 30,	
	2012	2011	2011	2010
	Consolidated Balance Sheet Data		Consolidated Balance Sheet Data	
Cash and cash equivalents	$ 170	$ 841	$ 93	$ 62
Working capital deficiency	(21,928)	(10,445)	(11,458)	(4,243)
Total assets	705	1,066	370	238
Common Stock warrant liability	6,871	3,452	2,194	889
Conversion option liability	6,102	4,125	2,607	1,173
Long-term debt, including current portion	13	19	16	30
Senior convertible promissory notes	3,024	3,024	3,024	0
Subordinated convertible promissory notes	4,500	1,400	2,500	0
Unsecured convertible promissory note	90	0	0	0
Total stockholders' deficiency	$ (21,876)	$ (10,403)	$ (11,422)	$ (4,204)

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 elsewhere in this prospectus. 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 as well as for the three months and six months ended March 31, 2012 and 2011. 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 prospectus for a discussion of certain risks associated with our business. We disclaim any obligation to update forward-looking statements for any reason, except as otherwise required by law.

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 disorders, 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 34,000 outcomes for 8,700 unique patients with psychiatric or addictive problems. We refer to this database as the PEER Online database (it was formerly known as the Referenced-EEG 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 prescribing 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 U.S. 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 PEER Online 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 PEER Online 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 PEER Online 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 March 31, 2012, we had an accumulated deficit of approximately $53.4 million, and as of March 31, 2011, our accumulated deficit was approximately $40.4 million. We incurred operating losses of $2.8 million and $3.1 million for the six months ended March 31, 2012 and 2011, respectively and incurred net losses of $11.1 million and $7.0 million for those respective periods. Of these net losses $5.5 million was due to a loss on derivative liabilities for the 2012 period as compared to a $0.30 million gain on derivative liabilities for the 2011 period. 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, 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, including an FDA Investigational Device Exemption (IDE) study with the military (these are necessary to further validate the efficacy of our products and services relating to our PEER technology across different types of behavioral disorders); the enhancement of the CNS Database and PEER 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 March 31, 2012, our current liabilities of approximately $22.6 million exceeded our current assets of approximately $0.6 million by approximately $22.0 million and our net losses will continue for the foreseeable future. As part of the $22.6 million of current liabilities we have approximately $7.5 million of secured convertible debt which is discounted to $6.0 million. We have an additional $90,000 of unsecured debt which is discounted to $7,500. Since March 31, 2012, we have borrowed $100,000 as a short-term, interest free loan from a director to pay for offering costs associated with our fund raising activities. We will need immediate additional funding to continue our operations plus substantial additional funding before we can increase the demand for our PEER Online services. In addition, we will have to repay the current outstanding notes plus interest starting October 1, 2012, unless we can raise at least $5 million through a public offering (in which case, pursuant to the terms of the 2012 Conversion Agreement, all convertible promissory notes would automatically be converted into shares of our common stock). The 2012 Conversion Agreements have not yet been executed by all holders. We can provide no assurances that we will succeed in having the holders agree to the terms of the 2012 Conversion Agreements.

We are actively 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 and market 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. 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.

The Private Placements

2010, 2011 & 2012 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 January 30, 2012, we raised an additional $2.00 million through the sale of subordinated secured convertible notes ("2011 Bridge Notes") and warrants. Of such amount, $1.04 million was purchased by members of our Board of Directors or their affiliate companies.

On February 29, 2012, we raised an additional $90,000 through the sale of an unsecured convertible note and warrant. This note was purchased by an affiliate company of a member of our Board of Directors.

For details on the above four series of private placement transactions refer to Notes 3 and 5 of the unaudited condensed consolidated financial statements and "Related Party Transactions — Certain Relationships and Related Transactions — Terms of Transactions with Related Persons."

Financial Operations Overview

Revenues

Our Neurometric Information Services revenues are derived from the sale of PEER 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 work-ups 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 PEER Outcome 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 PEER Outcome 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 management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. 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 prospectus. 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.

Offering Costs

The Company applies ASC topic 505-10, "Costs of an Equity Transaction", for recognition of offering costs. In accordance with ASC 505-10, the Company treats incremental direct costs incurred to issue shares classified as equity, as a reduction of the proceeds. Direct costs incurred before shares classified as equity are issued, are classified as an asset until the stock is issued. Indirect costs such as management salaries or other general and administrative expenses and deferred costs of an aborted offering are expensed.

Long-Lived Assets and Intangible Assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. If the Company determines that the carrying value of the asset is not recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived or intangible asset exceeds its fair value. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives of ten years.

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 expense, net	(407)	(262)
Net Loss	(1,189)%	(1,280)%

Revenues

	Year ended September 30,		Percent Change
	2011	2010	
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,		Percent Change
	2011	2010	
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 were as follows:

	Year ended September 30,		
Key Expense Categories	2011	2010	Change
Salaries and benefit costs	$ 112,700	$ 102,100	$ 10,600
Consulting fees	30,100	32,700	(2,600)
Other miscellaneous costs	4,300	300	4,000
Total Costs of Revenues	$ 147,100	$ 135,100	$ 12,000

Consulting costs associated with the processing of PEER Reports are $75 per PEER Report. 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,		Percent Change
	2011	2010	
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 which were as follows:

	Year ended September 30,		
Key Expense Categories	2011	2010	Change
Salaries and benefit costs	$ 427,000	$ 651,600	$ (224,600)
Consulting fees	16,000	50,200	(34,200)
Conference & travel	10,100	7,500	2,600
Other miscellaneous costs	29,700	29,500	200
Total Research	$ 482,800	$ 738,800	$ (256,000)

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,		Percent Change
	2011	2010	
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 which were as follows:

	Year ended September 30,		
Key Expense Categories	**2011**	**2010**	**Change**
Salaries and benefit costs	$ 261,100	$ 196,700	$ 64,400
Consulting fees	26,400	99,000	(72,600)
Programming fees	118,700	50,300	68,400
Database costs	19,400	17,000	2,400
Travel and other miscellaneous costs	16,400	18,700	(2,300)
Total Product Development	$ 442,000	$ 381,700	$ 60,300

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,		Percent Change
	2011	2010	
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.

	Year ended September 30,		
Key Expense Categories	**2011**	**2010**	**Change**
Salaries and benefit costs	$ 706,000	$ 568,100	$ 137,900
Advertising and marketing costs	95,300	59,100	36,200
Consulting fees	193,700	122,700	71,000
Conferences and travel costs	115,700	71,600	44,100
Other miscellaneous costs	22,100	31,600	(9,500)
Total Sales and marketing	$ 1,132,800	$ 853,100	$ 279,700

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 which 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 $9,500 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,		Percent Change
	2011	2010	
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.

	Year ended September 30,		
Key Expense Categories	**2011**	**2010**	**Change**
Salaries and benefit costs	$ 1,736,400	$ 1,203,200	$ 533,200
Legal fees	487,500	1,738,400	(1,250,900)
Other professional and consulting fees	394,400	727,700	(333,300)
Patent costs	157,300	77,300	80,000
Marketing and investor relations costs	23,300	96,400	(73,100)
Conference and travel costs	109,600	103,300	6,300
Dues & subscriptions fees	63,000	78,200	(15,200)
General admin and occupancy costs	226,400	238,400	(12,000)
Total General and administrative costs	$ 3,197,900	$ 4,262,900	$ (1,065,000)

With respect to our Neurometric Information Services business, in the year ended September 30, 2011, compared to the same period in 2010 we had the following changes:

- 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.

- 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.
- 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.
- 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 as a result of the negotiation of 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,		Percent Change
	2011	2010	
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 2010 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 was $15.00 at October 1, 2010, $6.00 at December 31, 2010, $13.50 at March 31, 2011, $7.80 at June 30, 2011 and $7.50 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,		Percent Change
	2011	2010	
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.

Results of Operations for the Three Months Ended March 31, 2012 and 2011

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.

	Three Months Ended March 31,	
	2012	2011
Revenues	100%	100%
Cost of revenues	17	19
Gross profit	83	81
Research	31	62
Product Development	76	61
Sales and marketing	147	181
General and administrative expenses	491	563
Operating loss	(662)	(786)
Other income (expense), net	(3,259)	(2,836)
Net income (loss)	(3,921)%	(3,622)%

Revenues

The following table presents revenues for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Service Revenues	$ 25,200	$ 29,200	(14)%
Clinical Service Revenues	188,900	162,600	16%
Total Revenues	$ 214,100	$ 191,800	12%

With respect to our Neurometric Information Services business the number of third-party paid PEER reports delivered decreased from 73 for the three months ended March 31, 2011, to 63 for the three months ended March 31, 2012, while the average revenue per report increased from $395 to $400 for the respective periods. Additionally our Clinical Services operation ordered 25 PEER reports during the three months ended March 31, 2012. The total numbers of free PEER reports processed were 39 and 25 for the three months ended March 31, 2011 and 2012, respectively. These free rEEG reports are used for training new psychiatrists, database-enhancement and compassionate-use purposes.

Clinical Service revenues increased by $26,300 for the three months ended March 31, 2012 from the equivalent period in 2011. This is partly due to increased advertising which brought in additional patients resulting in increased revenue.

Cost of Revenues

The following tables present cost of revenues for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Cost of Neurometric Information Services revenues	$ 35,900	$ 36,500	(2)%

Cost of Neurometric Information Services revenues consists of payroll, consulting, and other miscellaneous costs. Consulting costs primarily represent external costs associated with the processing and analysis of PEER reports and range between $75 and $100 per rEEG Report.

	Three Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 25,100	$ 29,400	$ (4,300)
Consulting fees	10,300	5,700	4,600
Other miscellaneous costs	500	1,400	(900)
Total Costs of Revenue	$ 35,900	$ 36,500	$ (600)

Comparing the three months ended March 31, 2012, with the corresponding period in 2011, salaries and benefit costs decreased by $4,300 due to a minor reduction in benefit costs and reduction of the vacation accrual. Consulting fees increased marginally in the 2012 period. Overall cost of revenues remained consistent for the two periods in question.

Research

The following tables present research expenses for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services Research	$ 67,400	$ 119,300	(44)%

Research expenses consist of payroll costs (including stock-based compensation costs), consulting fees, and other miscellaneous costs.

	Three Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 57,800	$ 108,800	$ (51,000)
Consulting fees	3,000	3,000	—
Other miscellaneous costs	6,600	7,500	(900)
Total Research	$ 67,400	$ 119,300	$ (51,900)

Comparing the three months ended March 31, 2012 with the corresponding period in 2011, salaries and benefit costs decreased by $51,000 from the three months ended March 31, 2011 to the corresponding 2012 quarter. This was due to a decrease in stock-based compensation as certain stock option grants became fully vested and consequently no further option costs were expensed. Other miscellaneous costs remained substantially equivalent for the two periods in question.

Product Development

The following tables present product development expenses for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services Product Development	$ 162,800	$ 116,400	(40)%

Product development expenses consist of payroll costs (including stock-based compensation costs), consulting fees, system development costs and other miscellaneous costs.

	Three Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 63,900	$ 60,600	$ 3,300
Consulting fees	41,400	0	41,400
System development costs	52,000	44,200	7,800
Other miscellaneous costs	5,500	11,600	(6,100)
Total Product Development	$ 162,800	$ 116,400	$ 46,400

Comparing the three months ended March 31, 2012 with the corresponding period in 2011: salaries and benefits remained substantially consistent for the two periods; consulting fees increased by $41,400 in this quarter as we utilized the services of a consultant specializing in FDA filings and in designing study protocols and a second consultant to work on documenting and testing aspects of the PEER Online system upgrades that are in development. System development and maintenance cost increased by $7,800 in the 2012 quarter as $17,000 was spent on programming a major system upgrade in order to use the Neuroguide platform and a further $14,000 was spent on upgrading the Physician Portal. In 2011 the EEG Portal was upgraded along with some less costly system upgrades. Other miscellaneous costs decreased by $6,100 in the 2012 quarter largely due to a reduced travel schedule.

Sales and marketing

The following tables present sales and marketing expenses for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Sales and Marketing			
Neurometric Information Services	$ 304,200	$ 321,400	(5)%
Clinical Services	10,800	26,100	(59)%
Total Sales and Marketing	$ 315,000	$ 347,500	(9)%

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.

	Three Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 185,200	$ 166,300	$ 18,900
Advertising and marketing costs	65,400	77,700	(12,300)
Consulting fees	30,000	53,400	(23,400)
Conferences and travel costs	18,100	21,100	(3,000)
Other miscellaneous costs	5,500	2,900	2,600
Total Sales and marketing	$ 304,200	$ 321,400	$ (17,200)

Comparing the three months ended March 31, 2012, with the same period in 2011: payroll and benefits increased by $18,900 with the addition of the VP of Customer Relations who started in mid-February, 2011. Advertising and marketing expenses decreased by $12,300 in the 2012 quarter due to a change in the mix of expenditures; in the 2011 quarter we had spent $52,000 on the Medco Study which was to develop data for an economic analysis for payers. Additionally, $20,000 was spent on EEG equipment for use by a new clinic customer; while in the 2012 quarter the Company spent $65,000 on the development and implementation of a test marketing campaign in the Denver, Boston and Southern California areas. Consulting expenditures decreased by $23,400 in the 2012 period as we utilized an advertising agency and reduced our reliance on various marketing consultants who were predominantly utilized in the 2011 period. Conference and travel and miscellaneous expenditures over the two respective periods remained substantially unchanged.

For Clinical Services, Sales and Marketing expenses decreased by $15,300 for the three months ended March 31, 2012, as compared to the prior year's period as Neurometric Information Services had contracted with an advertising agency to undertake a test marketing campaign. Consequently, the advertising expense was borne within the sales and marketing cost center of Neurometric Information Services.

General and administrative

The following tables present general and administrative expenses for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
General and administrative			
Neurometric Information Services	$ 788,800	$ 764,500	3%
Clinical Services	262,200	314,700	(17)%
Total General and administrative	$ 1,051,000	$ 1,079,200	(3)%

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

	Three Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 404,200	$ 436,100	$ (31,900)
Legal fees	203,200	99,800	103,400
Other professional and consulting fees	56,400	95,700	(39,300)
Patent costs	25,600	32,300	(6,700)
Marketing and investor relations costs	6,100	4,900	1,200
Conference and travel costs	16,700	23,200	(6,500)
Dues and subscriptions fees	18,300	20,000	(1,700)
General admin and occupancy costs	58,300	52,500	5,800
Total General and administrative costs	$ 788,800	$ 764,500	$ 24,300

With respect to our Neurometric Information Services business, in the three months ended March 31, 2012, compared to the same period in 2011 we had the following changes:

- Payroll and benefit expenses decreased by a net $31,900 of which $36,200 was due to a decrease in stock-based compensation as certain stock option grants became fully vested and were therefore no longer expensed. This decrease was partially offset by an increase in salary and benefit cost of $14,100 with the addition of our accountant; we also had an IRS Payroll Tax refund of $6,600 which dated back to 2006 and had been disputed by the Company.
- Legal fees showed a net increase of $103,400; this increase in expenditure was due to the Brandt litigation of $106,000. Mr. Brandt, the former CEO and Chairman of the Company, had filed a

TABLE OF CONTENTS

wrongful termination lawsuit against the Company and one of its Directors (Please refer to Note 8 Commitments and Contingent Liabilities of the unaudited and condensed Consolidated Financial Statements for details). The Company believes the complaint is devoid of any merit and the Company is aggressively defending the action.

- Professional and consulting fees decreased by a net $39,300 which was partly due to the mix of consulting services used in the respective periods. In the 2011 quarter we spent $28,000 for public relations services which are not being incurred in the 2012 quarter. A further decrease of $7,900 on accounting consultants was offset by bringing the consultant on board as full-time staff in March 2011.
- Patent costs decreased by $6,700 largely because of timing of patent applications and maintenance costs in the respective periods.
- Conference and travel costs decreased by $6,500 in 2012; while awaiting FDA IDE approval there was a reduced need for travel during this period.
- Marketing and investor relations costs, dues and subscriptions and general administrative and occupancy costs remained substantially unchanged in the two respective periods.

For Clinical Services, General and Administrative expenses includes all costs associated with operating the Neuro-Therapy Clinic which are: payroll costs, medical supplies, occupancy costs and other general and administrative support costs. These costs decreased by $52,500 to $262,200 in the three months ending March 31, 2012, from $314,700 in the 2011 period. This decrease is due to multiple factors including: a reduction of staff and benefit costs and a reduction in consulting fees in the current period.

Other expense

The following table presents other non-operating expenses for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services expense, net	$ (6,976,500)	$ (5,439,200)	28%
Clinical Services expense	—	—	*
Total other expense	$ (6,976,500)	$ (5,439,200)	28%

* *not meaningful*

For the three months ended March 31, 2012 and 2011 net other non-operating expense for Neurometric Information Services were as follows:

- For the three months ended March 31, 2012, we incurred non-cash interest charges totaling $1,135,700, of which $166,300 was accrued interest on our promissory notes at 9% per annum; the remaining balance of $969,400 was comprised of warrant discount amortization and warrant and note conversion derivative liability charges.
- We incurred finance fees totaling $106,200 in association with our private placement of convertible notes. Of these finance fees $55,100 was paid in cash and $51,100 was the fair value of warrants that were issued to the placement agents.
- 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 quarter ended March 31, 2012, resulted in a non-cash loss of $5,733,700. For the prior period ending March 31, 2011, this was a non-cash loss of $3,963,400 on the valuation of the derivative liabilities. The Company has experienced large changes in the valuation of derivative liabilities from quarter to quarter as a result of the volatility in its stock price.

Net Loss

The following table presents net loss for each of the periods indicated and the corresponding percent change.

	Three Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services net profit (loss)	$ (8,298,400)	$ (6,758,900)	23%
Clinical Services net loss	(96,100)	(187,400)	(49)%
Total Net Loss	$ (8,394,500)	$ (6,946,300)	21%

The net loss for our Neurometric Information Services business of approximately $8.3 million for the three months ended March 31, 2012 compared to the $6.8 million loss in the prior year period is primarily due to the non-cash charges in our non-operational Other Expense category as described above. Actual operational losses were consistent for the 2012 period versus the 2011 period.

For our Clinical Services the net loss of $96,100 in the three months ended March 31, 2012 decreased by $91,300 compared to the prior year period through a combination of increased revenue of $26,300 and decreased costs of $63,000.

The Company's operating loss declined by $89,100 in the 2012 period compared to the 2011 period. This improvement is masked in the net loss line due to multiple charges associated with non-cash interest expenses and non-cash derivative liabilities charges which stem from our promissory note financings. The Company anticipates that, if and when all note holders have executed the 2012 Conversion Agreements and upon the Company raising gross proceeds of $5 million in a qualified offering the promissory notes would automatically convert to equity. This conversion would also eliminate the derivative liabilities and the non-cash interest charges which currently have a major impact on our non-operational other expense line item.

Results of Operations for the Six Months Ended March 31, 2012 and 2011

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.

	Six Months Ended March 31,	
	2012	2011
Revenues	100%	100%
Cost of revenues	19	21
Gross profit	81	79
Research	34	97
Product Development	69	77
Sales and marketing	162	175
General and administrative expenses	530	628
Operating loss	(714)	(898)
Other income (expense), net	(2,078)	(1,176)
Net income (loss)	(2,793) %	(2,074)%

Revenues

The following table presents revenues for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Service Revenues	$ 57,200	$ 56,400	1%
Clinical Service Revenues	341,200	283,200	20%
Total Revenues	$ 398,400	$ 339,600	17%

With respect to our Neurometric Information Services business the number of paid PEER Reports delivered increased marginally from 142 for the six months ended March 31, 2011, to 146 for the six months ended March 31, 2012, while the average revenue decreased from $397 to $392 per report for the six months ended March 31, 2012. Additionally our Clinical Services operation ordered 44 PEER Reports during the period ended March 31, 2012. The total numbers of free rEEG reports processed were 36 and 76 for the six months ended March 31, 2011 and 2012 respectively. These free rEEG reports are used for training new psychiatrist, database-enhancement and compassionate-use purposes.

Clinical Service revenues increased by $58,000 for the six months ended March 31, 2012 from the equivalent period in 2011. This is partly due to the additional psychiatrist being fully credentialed with insurance payers in the latter period, and partly due to the increased advertising which brought in additional patients resulting in increased revenue.

Cost of Revenues

The following tables present cost of revenues for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Cost of Neurometric Information Services revenues	$ 75,100	$ 72,500	4%

Cost of Neurometric Information Services revenues consists of payroll, consulting, and other miscellaneous costs. Consulting costs primarily represent external costs associated with the processing and analysis of PEER Reports and range between $75 and $100 per rEEG Report.

	Six Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 53,000	$ 56,900	$ (3,900)
Consulting fees	20,900	12,700	8,200
Other miscellaneous costs	1,200	2,900	(1,700)
Total Costs of Revenue	$ 75,100	$ 72,500	$ 2,600

Comparing the six months ended March 31, 2012, with the corresponding period in 2011, the direct labor and benefits decreased by $3,900 due to reduced benefit costs. Consulting fees increased by $8,200 in the 2012 period due to the additional training costs for EEG testing and PEER Reports two new customer groups. Other miscellaneous costs were reduced by $1,700 as there was no need for travel in this 2012 period.

We expect costs of revenues will increase as an absolute number as more PEER Reports are processed. However, 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.

Research

The following tables present research expenses for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services Research	$ 137,100	$ 330,300	(58)%

Research expenses consist of payroll costs (including stock-based compensation costs), consulting fees, and other miscellaneous costs.

	Six Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 117,400	$ 304,600	$ (187,200)
Consulting fees	6,100	6,000	100
Other miscellaneous costs	13,600	19,700	(6,100)
Total Research	$ 137,100	$ 330,300	$ (193,200)

Comparing the six months ended March 31, 2012 with the corresponding period in 2011; salaries and benefit costs decreased by $187,200 in the 2012 period primarily due to the reduction of research staff that occurred in the 2011 period and the concomitant accrual of their severance pay. Additionally, as stock option grants became fully vested, they ceased to be expensed resulting in reduced stock option costs. Consulting costs remained substantially constant for the two periods while other miscellaneous costs decreased by $6,100 due to the reduction-in-force in the 2010 period.

Product Development

The following tables present product development expenses for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services Product Development	$ 275,300	$ 260,800	6%

Product development expenses consist of payroll costs (including stock-based compensation costs), consulting fees, system development costs and other miscellaneous costs.

	Six Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 116,300	$ 137,500	$ (21,200)
Consulting fees	41,400	26,400	15,000
System development costs	105,900	72,800	33,100
Other miscellaneous costs	11,700	24,100	(12,400)
Total Product Development	$ 275,300	$ 260,800	$ 14,500

Comparing the six months ended March 31, 2012 with the corresponding period in 2011: salaries and benefits decreased in the 2012 quarter by $21,200 primarily due to a reclassification of vacation pay as the product development cost center was separated from the research cost center. Consulting fees increased by $15,000 in the current period as we utilized the services of a consultant specializing in FDA filings and in designing study protocols and a second consultant to work on documenting and testing aspects of the PEER Online system upgrades under development. System development and maintenance cost increased by $33,100 in the current period as $17,000 was spent on programming a major system upgrade in order to use the Neuroguide platform and a further $14,000 was spent on upgrading the Physician Portal. Other miscellaneous costs decreased by $12,400 in the current period largely due to a reduced travel schedule.

Sales and marketing

The following tables present sales and marketing expenses for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Sales and Marketing			
Neurometric Information Services	$ 590,400	$ 565,100	4%
Clinical Services	54,700	29,200	87%
Total Sales and Marketing	$ 645,100	$ 594,300	9%

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.

	Six Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 362,900	$ 341,900	$ 21,000
Advertising and marketing costs	93,100	81,300	11,800
Consulting fees	85,100	90,100	(5,000)
Conferences and travel costs	39,200	44,900	(5,700)
Other miscellaneous costs	10,100	6,900	3,200
Total Sales and marketing	$ 590,400	$ 565,100	$ 25,300

Comparing the six months ended March 31, 2012, with the same period in 2011: payroll and benefits increased by $21,000 with the addition of our VP of Customer Relations who was hired in February, 2011. Advertising and marketing expenses increased by $11,800 in this current period; this was due to $65,000 spent on a test marketing campaign targeting Denver, Boston and Southern California and $26,000 spent on the Medco Study which was to develop data for an economic analysis for payers. In the prior period $52,000 had been spent on the Medco Study; $20,000 on EEG equipment for use by a new clinic customer and $9,000 on sundry marketing expenses. Consulting fees decreased by $5,000 primarily due to a shift away from consultants with greater reliance being placed on an advertising agency. Conference and travel and miscellaneous expenditures over the two respective periods remained substantially unchanged.

For Clinical Services, Sales and Marketing expenses increased by $25,500 for the six months ended March 31, 2012, as compared to the prior year's period; Clinical Services had embarked on a radio advertising campaign which started in late December of 2010 and consequently, the 2011 period only has marketing expenses for half of that period when compared to the more fully burdened 2012 period. We anticipate a moderate increase in marketing expenditure as we have determined that select radio advertising is effective in attracting new patients to the clinic.

General and administrative

The following tables present general and administrative expenses for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
General and administrative			
Neurometric Information Services	$ 1,597,200	$ 1,597,500	*%
Clinical Services	514,800	535,600	(4)%
Total General and administrative	$ 2,112,000	$ 2,133,100	(1)%

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

	Six Months Ended March 31,		
Key Expense Categories	**2012**	**2011**	**Change**
Salaries and benefit costs	$ 803,700	$ 849,400	$ (45,700)
Legal fees	334,700	213,000	121,700
Other professional and consulting fees	178,900	244,900	(66,000)
Patent costs	72,600	91,000	(18,400)
Marketing and investor relations costs	10,700	8,200	2,500
Conference and travel costs	50,100	48,400	1,700
Dues & subscriptions fees	31,800	32,300	(500)
General admin and occupancy costs	114,700	110,300	4,400
Total General and administrative costs	$ 1,597,200	$ 1,597,500	$ (300)

With respect to our Neurometric Information Services business, in the six months ended March 31, 2012, compared to the same period in 2011 we had the following changes:

- Payroll and benefit expenses decreased by a net $45,700, of which $71,800 was due to a decrease in stock-based compensation as certain stock-option grants became fully vested and therefore were no longer expensed. This decrease was partially offset by an increase in salary and benefit cost of $35,400 with the addition of our accountant in March 2011.
- Legal fees showed a net increase of $121,700; this was partly due to a reduction in general and SEC counsel expenditures of $115,000 as certain expenses were being capitalized as offering costs associated with our proposed registered offering. This reduction was more than offset by an increase in expenditure on the Brandt litigation of $193,000. Furthermore, we also engaged a firm to assist with our lobbying efforts with congressional leadership. These lobbying expenditures amounted to $35,000 in the current period.
- Professional and consulting fees decreased by a net $66,000 which was partly due to the mix of consulting services used in the respective periods. In the 2011 period we expended $19,000 for public relations services and $14,400 for a consultant who advised us on health insurance payers, neither of these engagements were continued in the current period. The remaining difference is due to the timing of various SEC and Tax filings during this six month period; these expenditures are expected to be fairly similar for the respective years.
- Patent costs decreased by $18,400 largely because of timing of patent applications and maintenance costs in the two respective periods.
- Marketing, investor relations, conference and travel costs, dues and subscriptions and general administrative and occupancy costs remained substantially unchanged in the two respective periods.

For Clinical Services, general and administrative expenses include all costs associated with operating of the Neuro-Therapy Clinic which include: payroll costs, medical supplies, occupancy costs and other general and administrative support costs. These costs decreased by $20,800 to $514,800 in the six months ending March 31, 2012, from $535,600 in the 2011 period. This decrease is due to a general reduction in expenditures across the board.

Other expense

The following table presents other expense for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services expense, net	$ (8,278,600)	$ (3,991,200)	*
Clinical Services expense	—	—	*
Total other expense	$ (8,278,600)	$ (3,991,200)	*

* *not meaningful*

For the six months ended March 31, 2012 and 2011 net other non-operating expense for Neurometric Information Services were as follows:

- For the six months ended March 31, 2012, we incurred non-cash interest charges totaling $2,617,700 of which $305,200 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $2,308,100 of warrant discount amortization and warrant and note conversion derivative liability charges and $4,400 of actual net interest paid in cash for the six month.
- We incurred finance fees totaling $151,500 in association with our private placement of convertible notes. Of these finance fees $94,700 was paid in cash and $56,800 was the fair value of warrants that were issued to the placement agent.
- Offerings cost of $7,700 were expensed as they related to our Canadian fund raising efforts.
- 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 are to be recognized in current earnings. Revaluation of our derivative liabilities for the promissory note conversion feature and associated warrants for this six month period ended March 31, 2012, resulted in a non-cash loss of $5,501,700. For the same period in 2011 we had a non-cash gain of $254,200 on the valuation of derivative liabilities. The Company experiences large changes in the valuation of derivative liabilities from quarter to quarter as a result of the volatility in our stock price.

Net Loss

The following table presents net loss for each of the periods indicated and the corresponding percent change.

	Six Months Ended March 31,		Percent Change
	2012	2011	
Neurometric Information Services net loss	$(10,879,400)	$ (6,745,900)	61%
Clinical Services loss	(246,300)	(298,000)	(17)%
Total Net Loss	$(11,125,700)	$ (7,043,900)	58%

The net loss for our Neurometric Information Services business of approximately $10.88 million for the six months ended March 31, 2012 compared to the $6.75 million loss in the same period in the prior year is primarily due to the non-cash charges in our other non-operating other expense category described above.

For our Clinical Services the net loss of $246,300 in the six months ended March 31, 2012, is a decrease of $51,700 over the same period in the prior year. The reduced loss is due to a combination of increased revenues and reduced expenditures across the board.

The Company's operating loss of $2.85 million for the six months ended March 31, 2012, is a reduction of $205,200 for the same period in the prior year, however this improvement is masked in the net loss line due to multiple non-cash charges associated with interest expenses and changes in valuation of our derivative liabilities which stem from our promissory note financings. Upon raising gross proceeds of $5 million in a qualified offering, the promissory notes will automatically convert to equity and the exercise price of the warrants will be set at the lower of the offering or exercise price in accordance with our 2012 Conversion Agreements with note holders. This will result in the elimination of the derivative liabilities and the non-cash interest charges which currently have a major impact on our non-operational Other Expense line item.

Liquidity and Capital Resources

Since our inception, we have incurred significant losses. As of March 31, 2012, we had an accumulated deficit of approximately $53.4 million; for March 31, 2011 our accumulated deficit was approximately $40.4 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 March 31, 2012, we had approximately $169,600 in cash and cash equivalents and a working capital deficiency of approximately $22.0 million compared to approximately $841,300 in cash and cash equivalents and a working capital deficiency of approximately $10.5 million at March 31, 2011. The working capital deficiency as of March 31, 2012 includes the $7.6 million of convertible promissory notes outstanding of which $3.0 million are senior secured notes and $4.5 million are subordinated secured notes and $90,000 are unsecured. Additionally it includes a non-cash derivative liability of $13.0 million.

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 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.

Although since September 30, 2011 we have raised gross proceeds of $2.1 million through the sale of subordinated secured and unsecured convertible promissory notes and we have borrowed $100,000 in a short-term loan; 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. In addition, we will have to repay the currently outstanding notes plus interest starting on October 1, 2012, unless we can raise at least $5 million through a public offering (in which case, pursuant to the terms of the 2012 Conversion Agreements, all the promissory notes would automatically be converted into shares of our common stock). The 2012 Conversion Agreements have not yet been executed by all holders. We can provide no assurances that we will succeed in having the holders agree to the terms of the 2012 Conversion Agreement.

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 cause us to have to cease operations.

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); to scale up our paid clinical trial with the military and to initiate 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.

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 a 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. 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 March 31, 2012, we had received proceeds of approximately $13.7 million from the sale of stock, $15.3 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. From October 11, 2011 through January 31, 2012, we raised $2.0 million through the sales of additional subordinated secured convertible notes (2011 Bridge Notes). On February 29, 2012 we raised a further $90,000 in an unsecured convertible note. Of such amounts, an aggregate of $3.9 million was purchased by members of our Board of Directors or their affiliate companies. *See Note 3 and Note 9 of the Notes to Unaudited Condensed Consolidated Financial Statements.*

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 decreases 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 used in operating activities was $1.9 million for the six months ended March 31, 2012 compared to $2.4 million for the six months ended March 31, 2011. The decrease in cash used in operations of $0.5 million was primarily due to a general cost cutting/containment across the board.

Net cash used in investing activities increased to $25,500 for the six months ended March 31, 2012 as compared to $20,100 for the same period ended March 31, 2011. Our 2012 investing activities were primarily related to the acquisition of intellectual property and some minor purchases of computer equipment. In the 2011 period we acquired EEG equipment to be loaned out to customers.

Net cash proceeds from financing activities for the six months ended March 31, 2012 were approximately $2.0 million, net of offering costs, raised through our sale of subordinated secured convertible notes and warrants (the 2011 Bridge Notes) and a $90,000 unsecured note. For the six months ended March 31, 2011 net cash proceeds from financing activities were approximately $3.2 million from the sale of our Secured October Notes and Subordinated Secured January Notes and an equipment lease which generated net proceeds of $15,900. These proceeds were partly offset by the repayment of $24,700 on a promissory note issued to Daniel Hoffman, our Chief Medical Officer, in connection with our acquisition of NTC.

Contractual Obligations and Commercial Commitments

As of September 30, 2011, our combined operating lease obligations are $169,700; our remaining lease obligation on our Aliso Viejo office, which expires of 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 of 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	$ —	$ —

As of March 31, 2012, our combined lease obligations are $113,300 as follows;

- our remaining lease obligation on our Aliso Viejo office, which expires on January 31, 2013, is $41,500 in total: being $24,900 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 of April 30, 2013, is $71,800 in total: $33,000 and $38,800 for fiscal years 2012 and 2013 respectively, with an average monthly rental of $5,100 over the entire lease period.

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:

- $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.
- $2.6 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.

Current liabilities at March 31, 2012 include $13.0 million of derivative liability. This amount includes:

- $6.9 million, which represents the fair value liability associated with the warrants issued in conjunction with the October, January, 2011 Bridge Notes and Unsecured convertible note.
- $6.1 million, which represent the fair value liability associated with the conversion option of the October, January, 2011 Bridge Notes and Unsecured convertible note. (Please see Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements).

(Please see “Market for Common Equity and Related Stockholder Matters.)

The carrying value of these derivative liabilities is reassessed each quarter and any change in the carrying value is booked to the other income (expense) line item in the income statement. For the six months ended March 31, 2012, we booked a charge of $5.5 million in the carrying value of these derivatives, compared to a gain of $0.3 million for the same period ended March 31, 2011.

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.

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. The Company actively operates its businesses through CNS Response, Inc. (California) and Neuro-Therapy Clinic, Inc., which was acquired in January 2008.

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 disorders, 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 — there are now over 34,000 outcomes within the database from over 8,700 unique 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 prescribing 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 U.S. 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 PEER Online 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 PEER Online 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 PEER Online 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 through 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 between 1996 and 2006, 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 Corporation report, over 2 million soldiers have been deployed to Iraq and Afghanistan since 2001 and up to a third of the returning military personnel may suffer from Major Depression, Post Traumatic Stress Disorder (PTSD), Traumatic Brain Injury (TBI);
- Recent studies have shown a dramatic increase in medications being used for ADHD, without any corresponding improvements in outcomes. A Michigan State University study demonstrated that one million children out of the 4.5 million currently diagnosed with ADHD may be misdiagnosed; 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 PEER 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 use of EEG to predict medication outcomes has been well established in 22 studies involving over 1,000 patients. These studies can be found at *www.PEERDossier.com.*

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 major 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. Optum, a unit of United Healthcare Group, 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.

Depression Efficacy Study: Over the last few years, we have been primarily focused on demonstrating 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, University of California Irvine 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-LESQ-SF). Top-line results were consistent with previous trials of PEER Reports:

- The study found that physicians using 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.
- 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 and, subsequently, a paper has been published in Neuropsychiatric Disease and Treatment, the journal of the International Neuropsychiatric Association ("INA"). The paper entitled "Measuring Severe Adverse Events and Medication Selection Using A "PEER Report" for Non-Psychotic Patients: A Retrospective Chart Review" was authored by Daniel Hoffman M.D. of our subsidiary Neuro-Therapy Clinic, Charles DeBattista M.D. of the Stanford University School of Medicine, Rob Valuck, Ph.D. from the University of Colorado Health Sciences Center and Dan Iosifescu of the Mood and Anxiety Disorders Program, Mount Sinai School of Medicine and Harvard University Faculty. 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 after the PEER report.

- Of the remaining patients who required medications:
  - º 87% of the patients achieved "much improved" or "very much improved" on the Clinical Global Improvement standardized outcomes measurement and 71% showed significant improvement using the Quality of Life Enjoyment and Satisfaction Questionnaire.
  - º 69% of the patients achieved Maximum Medical Improvement (MMI) in an average of four visits.
  - º Out of 68 (26%) patients who had reported suicidality preceding their PEER Outcome Report, nine (4%) reported suicidality 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 (Selective Serotonin Reuptake Inhibitors) and Atypical Antipsychotics, and categorical increases in MAOI (Oxidase Inhibitors) and Tricyclic class antidepressants, and certain stimulants.

Eating Disorders Study: In November 2011, we published in 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 database, based on receipt of hundreds of new patient outcomes from network physicians. With the anticipated addition of approximately 2,000 new subjects under an Investigational Device Exempt trial with the U.S. Military, the PEER Outcome database has the potential to grow significantly.
- 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.

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).

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.

TMS Response Study: In February, results from a study of EEG prediction of TMS responsivity were published by Dr. Martijn Arns in the peer-reviewed journal Brain Stimulation. “Neurophysiological predictors of non-response to rTMS in depression” presents results of a multi-site clinical trial (n=90) in the Netherlands using several CNSO variables (iAPF, Theta and P300 amplitude) associated with non-response to TMS therapy. Use of these combined neurometrics in a discriminant analysis resulted in a reliable identification of non-responders with low false positive rates. Replication studies are currently being planned in both the Netherlands and the U.S.

Intellectual Property

PEER Online Patents

We have fourteen issued patents, of which five are in the U.S., which cover the process involved in our PEER Online service and we have been notified that a sixth U.S. patent will be issued on June 20, 2012 and that a seventh U.S. patent will also be issued. Our fourteen existing patents are valid until between September 2017 and July 2022. 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 referenced-EEG. We have been issued patents in the following countries and regions: Canada (2 patents), Europe (2 patents), Australia (3 patents), Mexico (1 patent) and Israel (1 patent). We also have filed multiple additional patent applications for our technology in the U.S., Europe, Canada, Japan and Mexico.

The Company received notice in April, 2012 that it will receive approval for a distinctly new patent estate, covering internet transmission of neurometric information. This new allowance under its basic methods patent portfolio, file number CNSR-09318, covers remote or web-based transmission of neurometric data. In the event that use of neurometric data or algorithms becomes widespread, this patent could make it necessary for major equipment manufacturers to license rights from the Company in order to transmit such information for use in medication response prediction.

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.

CNS Response has also filed patent applications in the U.S. and Canada related to the company's acquisition of patient responsivity data for Transcranial Magnetic Stimulation (TMS). This would be the Company's first application for a neurometric predictor of a non-drug therapy. The Company anticipates using this methodology to help physicians better understand which patients may positively respond to TMS for treating depression. The U.S. and Canadian patent applications are entitled “Method for Assessing the Susceptibility of a Human Individual Suffering from a Psychiatric or Neurological Disorder to Neuromodulation Treatment.”

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 that they will be registered in due course by the United States Patent and Office.

PEER Online Database

The PEER Online database consists of over 34,000 clinical outcomes for 8,700 unique patients with psychiatric or addictive problems. The PEER Online database is maintained in two parts:

1. The CNSO Database

The CNSO Database includes EEG recordings and neurometric data derived from analysis of these recordings. This data is collectively known as the CNSO Data. CNSO or “Quantitative EEG” is a standard measure that adds modern computer and statistical analyses to traditional EEG studies. We utilize two separate CNSO 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.

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 plc.) 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.
- MICROSOFT CORPORATION and GENERAL ELECTRIC announced in late 2011 the combination of their respective health information technology product lines into a new, jointly-owned company to be called Caradigm. The venture is purported to bring Microsoft's deep expertise of in building platforms and ecosystems, and GE Healthcare's experience in clinical and administrative workflows. The resulting interoperable electronic health record (EHR) and clinical decision support system is seen as a potential competitive challenge to IBM Watson.

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.

In March 2012, the U.S. Food and Drug Administration (FDA) responded to our proposal for a clinical trial of an Investigational Device, PEER Interactive, designed to support physicians in identifying the best treatments for certain mental illnesses. In response to the comments provided by the FDA, we intend to revise the protocol and launch a clinical trial with Walter Reed National Military Medical Center (WRNMMC) and several other sites, partnering with military physicians treating 2,000 patients diagnosed with mental health conditions such as depression, post-traumatic stress disorder (PTSD), mild traumatic brain injury (mTBI) and several other disorders.

WRNMMC has indicated that it will lead the study, following approval of the final protocol, as modified in accordance with the FDA guidance, by the cognizant military Institutional Review Board (IRB). Other military treatment facilities are also expected to participate.

CNS Response sought advice from the FDA with respect to its clinical trial protocol prior to its intended submission in the future of a marketing application under 510(k). The FDA commented on the submission indicating that as proposed, PEER Interactive would require pre-market approval, although it indicated clearly that under certain circumstances, the product could shift to the 510(k) pathway. The FDA provided additional comments and suggestions relating to the proposed trial, which the Company intends immediately to incorporate into its revised protocol. The protocol will then be submitted to the IRB at WRNMMC and the trial is anticipated to commence immediately following IRB approval. However, we have not entered into a definitive agreement with WRNMMC relating to the conduct of a trial. WRNMMC may decide not to proceed with a trial with us or, once it has started, may terminate the trial at any time. Furthermore, we cannot predict the results or the success of any trial, if and once completed, and can offer no assurances that the FDA will not continue to insist on pre-market approval or that data that will be included in our future submissions to the FDA do not raise any important new issues, which would, thereby materially affect safety or effectiveness of our rEEG service.

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 the 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 medical 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 would 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 March 30, 2012, 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.

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.

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. On March 12, 2012, the court sustained demurrers to certain of the counts against each defendant. On March 22, 2012, Mr. Brandt filed a second amended complaint that modifies certain of his claims, but does not add new claims. The Company believes the second amended complaint, like the prior complaints, is devoid of any merit. The Company is aggressively defending the action. 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.

MANAGEMENT

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
Maurice DeWald	72	Director
Paul Buck	56	Chief Financial Officer and Secretary
Daniel Hoffman, M.D.	64	Chief Medical Officer
Michael Darkoch	68	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 served as a managing member of the general partner of SAIL Venture Partners, L.P. (“SAIL”), from 2003 until the end of April 2011. Mr. Jones remains a limited partner of SAIL. 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 served as a director of M2 Renewables, Inc. 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 and 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 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 charter holder. 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.

Maurice J. DeWald, Director

Maurice J. DeWald joined our board of directors on March 22, 2012. He has served as the Chairman and Chief Executive Officer of Verity Financial Group, Inc., a financial advisory firm, since 1992, where the primary focus has been in both healthcare and technology sectors. Mr. DeWald also serves as a director of public companies Healthcare Trust of America, Inc., Targeted Medical Pharma, Inc. and Emmaus Life Sciences, Inc. and as a non-executive Chairman of public company Integrated Healthcare Holdings, Inc. Mr. DeWald also previously served as a director of Tenet Healthcare Corporation, ARV Assisted Living, Inc. and Quality Systems, Inc. From 1962 to 1991, Mr. DeWald was with the international accounting and auditing firm of KPMG, LLP, where he served at various times as an audit partner, a member of their board of directors as well as the managing partner of the Orange County, Los Angeles and Chicago offices. Mr. DeWald has served as Chairman and director of both the United Way of Greater Los Angeles and the United Way of Orange County California. Mr. DeWald holds a B.B.A. degree in Accounting and Finance from the University of Notre Dame and is a member of its Mendoza School of Business Advisory Council. Mr. DeWald is a Certified Public Accountant (inactive), and is a member of the California Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the National Association of Corporate Directors. The Company believes that Mr. DeWald is qualified to sit on the Company’s board of directors due to his extensive management, finance, public accounting and public company directorship experience, as well as his experience in the healthcare industry.

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 seven members: David Jones, George Carpenter, Henry Harbin, John Pappajohn, George Kallins, Zachary McAdoo and Maurice DeWald. With the exception of George Kallins, who was appointed to our board on July 5, 2010, Zachary McAdoo, who was appointed to our board on November 21, 2011, and Maurice DeWald, who was appointed to our board on March 22, 2012, 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 use the definition of "independence" under Rule 5602 of the Nasdaq Stock Market Rules, as applicable and as may be modified or supplemented from time to time and the interpretations thereunder, to determine if the members of our Board are independent. In making this determination, our Board considers, among other things, transactions and relationships between each director and his immediate family and the Company, including those reported under the caption "Certain Relationships and Related Transactions." The purpose of this review is to determine whether any such relationships or transactions are material and, therefore, inconsistent with a determination that the directors are independent. On the basis of such review and its understanding of such relationships and transactions, our Board affirmatively determined that Henry Harbin, George Kallins, Zachary McAdoo and Maurice DeWald, who collectively represent a majority of our Board, are "independent" directors as that term is defined in the Nasdaq Stock Market Rules.

Board Committees

Our board of directors established an audit committee and a compensation committee at a board meeting held on March 3, 2010, and a governance and nominations committee at a board meeting held on March 22, 2012. 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), George Kallins and Maurice DeWald. Each of these committee members is "independent" within the meaning of Rule 10A-3 under the Exchange Act and the Nasdaq Stock Market 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 George Kallins, Zachary McAdoo and Henry Harbin. Each member is "independent" within the meaning of the Nasdaq Stock Market Rules. In addition, each member of our compensation committee qualifies as a "non-employee director" under Rule 16b-3 of the Exchange Act. 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.

Governance and Nominations Committee

The members of our governance and nominations committee are Henry Harbin, Zachary McAdoo and Maurice DeWald. Each member is "independent" within the meaning of the Nasdaq Stock Market Rules. The purpose of the governance and nominations committee is to recommend to the Board nominees for election as directors and persons to be elected to fill any vacancies on the Board, develop and recommend a set of corporate governance principles and oversee the performance of the Board.

The committee's responsibilities include:

- Selecting director nominees. The governance and nominations committee recommends to the Board of Directors nominees for election as directors at any meeting of stockholders and nominees to fill vacancies on the Board. The governance and nominations committee would consider candidates proposed by stockholders and will apply the same criteria and follow substantially the same process in considering such candidates as it does when considering other candidates. The governance and nominations committee may adopt, in its discretion, separate procedures regarding director candidates proposed by our stockholders. Director recommendations by stockholders must be in writing, include a resume of the candidate's business and personal background and include a signed consent that the candidate would be willing to be considered as a nominee to the Board and, if elected, would serve. Such recommendation must be sent to the Company's Secretary at the Company's executive offices. When it seeks nominees for directors, our governance and nominations committee takes into account a variety of factors including (a) ensuring that the Board, as a whole, is diverse and consists of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise (including expertise that could qualify a director as a "financial expert," as that term is defined by the rules of the SEC), local or community ties and (b) minimum individual qualifications, including strength of character, mature judgment, familiarity with the company's business and industry, independence of thought and an ability to work collegially. The Company is of the view that the continuing service of qualified incumbents promotes stability and continuity in the board room, contributing to the ability of the Board of Directors to work as a collective body, while giving the Company the benefit of the familiarity and insight into the Company's affairs that its directors have accumulated during their tenure. Accordingly, the process of the governance and nominations committee for identifying nominees reflects the Company's practice of re-nominating incumbent directors who continue to satisfy the committee's criteria for membership on the Board of Directors, whom the committee believes continue to make important contributions to the Board of Directors and who consent to continue their service on the Board of Directors. The Board has not adopted a formal policy with

respect to its consideration of diversity and does not follow any ratio or formula to determine the appropriate mix; rather, it uses its judgment to identify nominees whose backgrounds, attributes and experiences, taken as a whole, will contribute to the high standards of board service. The governance and nominations committee may adopt, and periodically review and revise as it deems appropriate, procedures regarding director candidates proposed by stockholders.

- Reviewing requisite skills and criteria for new board members and board composition. The governance and nominations committee reviews with the entire Board of Directors, on an annual basis, the requisite skills and criteria for board candidates and the composition of the Board as a whole.
- Hiring of search firms to identify director nominees. The governance and nominations committee has the authority to retain search firms to assist in identifying board candidates, approve the terms of the search firm's engagement, and cause the Company to pay the engaged search firm's engagement fee.
- Selection of committee members. The governance and nominations committee recommends to the Board of Directors on an annual basis the directors to be appointed to each committee of the Board of Directors.
- Evaluation of the Board of Directors. The governance and nominations committee will oversee an annual self-evaluation of the Board of Directors and its committees to determine whether it and its committees are functioning effectively.
- Development of Corporate Governance Guidelines. The governance and nominations committee will develop and recommend to the Board a set of corporate governance guidelines applicable to the Company.

The governance and nominations committee may delegate any of its responsibilities to subcommittees as it deems appropriate. The governance and nominations committee is authorized to retain independent legal and other advisors, and conduct or authorize investigations into any matter within the scope of its duties.

Involvement in certain legal proceedings

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. In this process Brandt also brought suit against individual members of the Board at that time, being Mr. Carpenter, Dr. Harbin, Mr. Jones, Mr. Pappajohn and Dr. Vaccaro. At the conclusion of a two-day trial that commenced December 1, 2009, the Chancery Court entered judgment for the Company and its Board members 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. This resolved all pending actions between the Company and Mr. Brandt.

On April 11, 2011, 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, SAIL Venture Partner, LP, and Mr. David Jones, 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. On March 12, 2012, the court sustained demurrers to certain of the counts against each defendant. On March 22, 2012, Mr. Brandt filed a second amended complaint that modifies certain of his claims, but does not add new claims. The Company believes the second amended complaint, like the prior complaints, is devoid of any merit. The Company is aggressively defending the action. 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.

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*. 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.

EXECUTIVE COMPENSATION

Overview of Compensation Practices

Our executive compensation program is administered by the compensation committee.

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 and 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	2011	304,114(9)	—	—	21,828(3)	325,942
(Chief Executive Officer, President and Director)	2010	213,700(9)	—	2,167,300(1)(5)	20,800(3)	2,401,800
Daniel Hoffman	2011	235,500	—	—	27,728(4)	263,228
(Chief Medical Officer)	2010	150,000	—	270,900(1)(6)	26,000(4)	465,900
Paul Buck	2011	188,500(10)	—	—	22,895(3)	211,395
(Chief Financial Officer)	2010	127,000(10)	—	243,800(1)(7)	94,900(10)	465,700
Michael Darkoch	2011	216,666(11)	—	—	18,320(3)	234,986
(Executive Vice 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 133,334 from the March 3, 2010 grant and 32,297 from the October 1, 2007 grant.

(6) The aggregate number of option awards outstanding for Dr. Hoffman at September 30, 2011 was 16,667 shares from the March 3, 2010 grant and 27,137 and 3,968 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 15,000 from the March 3, 2010 grant.

(8) The aggregate number of option awards outstanding for Mr. Darkoch at September 30, 2011 was 15,000 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 in 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 133,334 shares, Dr. Hoffman in the amount of 16,667 shares, and Mr. Buck in the amount of 15,000 shares.

(2) On July 6, 2010, options were granted to Mr. Darkoch in the amount of 15,000 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 32,297 shares of our common stock at an exercise price of $26.70 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 15,000 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 $16.50 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 15,000 shares of our common stock on July 6, 2010 at an exercise price of $12.00 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 333,334 to 666,667 shares and increased the limit on shares underlying awards granted within a calendar year to any eligible employee or director from 100,000 to 133,334 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 333,334 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 100,000 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 333,334 to 666,667 shares and increased the limit on shares underlying awards granted within a calendar year to any eligible employee or director from 100,000 to 133,334 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 315,000 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 26,667 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 15,834 options to staff members with similar vesting periods as the March 3, 2010 options mentioned above.

As of September 30, 2011, 70,825 options were exercised and there were 524,171 options and 6,132 restricted shares outstanding under the amended 2006 Plan, leaving 65,541 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."

2012 Omnibus Incentive Compensation Plan

On March 22, 2012, our Board of Directors approved the CNS Response, Inc. 2012 Omnibus Incentive Compensation Plan (the "2012 Plan"), subject to stockholder approval at the Company's next annual meeting of stockholders. The New Plan replaced the Company's abovementioned 2006 Plan. The 2012 Plan provides for the grant of options (including nonqualified options and incentive stock options), restricted stock, performance units, performance shares, deferred stock, restricted stock units, dividend equivalents, bonus shares and other stock-based awards to directors, officers, employees and/or consultants of the Company.

Also on March 22, 2012, our Board approved the grant of options to purchase 42,667 shares of common stock pursuant to such plan at an exercise price of $3.00 per share, including options to purchase 8,334 shares to each of our directors Zachary McAdoo and Maurice DeWald. Absent stockholder approval of the 2012 Plan at the next annual meeting, these options will be cancelled and the 2012 Plan will not become effective.

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.

	Number of Securities Underlying Unexercised Options (#)		Option Exercise Price ($)	Option Expiration Date
Name	**Exercisable**	**Unexercisable**		
George Carpenter[1]	52,779	80,555	16.50	March 2, 2020
	32,297	0	26.70	October 1, 2017
Daniel Hoffman[2]	6,598	10,069	16.50	March 2, 2020
	27,137	0	32.70	August 8, 2017
	3,968		3.60	August 11, 2016
Paul Buck[3]	5,938	9,062	16.50	March 2, 2020
Michael Darkoch[4]	4,688	10,312	13.20	July 6, 2020

(1) On March 3, 2010, Mr. Carpenter was granted options to purchase 133,334 shares of common stock. The options are exercisable at $16.50 per share and vest equally over 48 months starting on March 3, 2010.

On October 1, 2007 Mr. Carpenter was granted options to purchase 32,297 shares of common stock. The options are exercisable at an exercise price of $26.70 and vest as follows: 4,037 shares vested immediately with the remaining 28,260 shares vesting equally over 42 months commencing April 30, 2008.

(2) On March 3, 2010, Dr. Hoffman was granted options to purchase 16,667 shares of common stock. The options are exercisable at $16.50 per share and vest equally over 48 months starting on March 3, 2010.

On August 8, 2007, Dr. Hoffman was granted options to purchase 27,137 shares of our common stock. The options are exercisable at $32.70 per share and vest as follows: options to purchase 6,784 shares vested on March 8, 2008; options to purchase 19,787 shares vest in equal monthly installments of 566 shares over 35 months commencing on April 30, 2008; the remaining options to purchase 565 shares vested on March 31, 2011.

On August 11, 2006, Dr. Hoffman was granted an option to purchase 3,968 shares of common stock at an exercise price of $3.60 per share, which is now fully exercisable.

(3) On March 3, 2010, Mr. Buck was granted options to purchase 15,000 shares of common stock. The options are exercisable at $16.50 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 15,000 shares of common stock. The options are exercisable at $12.00 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 8,334 options having an exercise price of $16.50 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 9,000. Dr. Vaccaro has resigned from our Board of Directors.

(2) On March 3, 2010 Dr. Harbin was granted 8,334 options for his services as a director and 13,334 options for consulting services pursuant to his March 26, 2010 Consulting Agreement described below. These options have an exercise price of $16.50 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 1,867 shares of our common stock at an exercise price of $28.80 per share, with options to purchase 467 shares vesting on the date of grant, options to purchase 1,245 shares vesting in eight equal monthly installments of 156 options commencing on April 30, 2008, and the remaining options to purchase 156 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 1,867 shares of our common stock at an exercise price of $12.00 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 December 31, 2011, we have accrued $54,000 on Dr. Harbin's contracts for calendar year 2010 and 2011 through December 31, 2011. In addition, as further compensation, we granted Dr. Harbin options to

purchase 13,334 shares of our common stock at an exercise price of $16.50 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 December 31, 2011 was 26,867.

(3) On March 3, 2010, Mr. Pappajohn was granted 8,334 options having an exercise price of $16.50 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 December 31, 2011 was 8,334.

(4) On March 3, 2010, Mr. Jones was granted 8,334 options having an exercise price of $16.50 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 December 31, 2011 was 8,334. 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 8,334 options having an exercise price of $12.00 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 December 31, 2011 was 8,334.

PRINCIPAL STOCKHOLDERS

The following table presents information regarding the beneficial ownership of our common stock as of April 30, 2012 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 April 30, 2012 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 1,874,175 shares of our common stock outstanding on April 30, 2012 and with respect to number of shares beneficially owned after the offering, assumes the sale of ___ units in this offering (not including the overallotment option) plus the conversion of all convertible promissory notes into 2,786,894 shares of common stock. 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.

TABLE OF CONTENTS

Name of Beneficial Owner	Number of Shares Beneficially Owned Prior to Offering		Number of Shares Beneficially Owned After the Offering	
	Number	Percentage of Shares Outstanding	Number	Percentage of Shares Outstanding
Executive Officers and Directors:				
George Carpenter[(1)] Director, President and Chief Executive Officer	124,742	6.3%	124,742	%
Paul Buck[(2)] Chief Financial Officer and Secretary	48,168	2.5%	65,760	%
Dr. Daniel Hoffman[(3)] Chief Medical Officer	44,097	2.3%	44,097	%
Michael Darkoch[(4)] Executive Vice President and Chief Marketing Officer	7,500	*	7,500	*
David B. Jones[(5)] Chairman of the Board	—	*	—	*
Dr. Henry Harbin[(6)] Director	22,331	1.2%	22,331	%
John Pappajohn[(7)] Director	1,355,791	46.3%	1,758,377	%
Dr. George Kallins[(8)] Director	392,166	17.3%	629,507	%
Zachary McAdoo[(9)] Director	259,904	12.2%	325,405	%
Maurice DeWald[(10)] Director	463	*%	463	*
Directors and officers as a group (8 persons)[(11)]	2,255,162	49.4%	2,978,182	%
Non-Director 5%+ Stockholders:				
Leonard Brandt[(12)]	349,347	18.1%	349,347	%
SAIL Venture Partners LP[(5)]	982,747	37.2%	1,456,036	%
Andy Sassine[(13)]	384,325	17.0%	633,189	%
Highland Long/Short Healthcare Fund and Cummings Bay Healthcare Fund (Michael Gregory)[(14)]	542,188	22.7%	877,366	%
Meyer Proler[(15)]	118,907	6.1%	154,044	%
AlphaNorth[(16)]	339,792	15.3%	425,188	%

* Less than 1%

(1) Consists of (a) 12,000 shares of common stock, (b) 2,667 shares of common stock issuable upon the exercise of vested and exercisable warrants and (c) 110,075 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 3,334 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) 9,334 shares of common stock, (b) 18,750 shares of common stock issuable upon the conversion of convertible notes, (c) 11,334 shares of common stock issuable upon the exercise of vested and exercisable warrants (of which 8,334 have a cashless exercise feature), (d) 8,750 shares of common stock issuable upon the exercise of vested and exercisable options and (e) 17,592 shares of common

stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. Prior to becoming an employee of our company, Mr. Buck was a financial consultant to CNS Response.

(3) Consists of (a) 3,269 shares of common stock, (b) 417 shares of common stock issuable upon the exercise of vested and exercisable warrants and (c) 40,828 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 7,500 shares of common stock issuable upon the exercise of vested and exercisable options. Mr. Darkoch is our Executive Vice President and Chief Marketing Officer.

(5) For SAIL Venture Partners, L.P., consists of (a) 215,703 shares of common stock held by SAIL Venture Partners, L.P., (b) 467,434 shares of common stock issuable upon the conversion of convertible notes, of which 305,389 are held by SAIL Venture Partners, L.P. and 162,045 are held by SAIL 2010 Co-Investment Partners, L.P., (c) 293,128 shares of common stock issuable upon the exercise of vested and exercisable warrants, of which 220,210 are held by SAIL Venture Partners, L.P. and 72,918 are held by SAIL 2010 Co-Investment Partners, L.P., (d) 6,482 shares of common stock issuable upon the exercise of vested and exercisable options granted to David Jones and assigned to SAIL Venture Partners, L.P. and (e) 138,134 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature, of which 320,369 is SAIL Venture Partners, L.P. and 152,920 is SAIL 2010 Co-Investment Partners, L.P. All but 47,306 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 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. Mr. Jones served as managing member of the general partner of SAIL Venture Partners, L.P. through April 2011 and since then has served as a limited partner of SAIL Venture Partners, L.P.

(6) Consists of (a) 278 shares of common stock, (b) 84 shares of common stock issuable upon the exercise of vested and exercisable warrants and (c) 22,053 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. Harbin is a director of the Company.

(7) Consists of (a) 302,920 shares of common stock, (b) 558,326 shares of common stock issuable upon the conversion of convertible notes, (c) 488,063 shares of common stock issuable upon the exercise of vested and exercisable warrants, (d) 6,482 shares of common stock issuable upon the exercise of vested and exercisable options and (e) 402,586 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. Of the warrants to purchase common stock, all but 111,112 do not have a cashless exercise feature. The address of John Pappajohn is 2116 Financial Center, Des Moines, IA 50309. Mr. Pappajohn is a director of the Company.

(8) Consists of (a) 1,267 shares of common stock, (b) 292,448 shares of common stock issuable upon the conversion of convertible notes, (c) 92,895 shares of common stock issuable upon the exercise of vested and exercisable warrants, (d) 5,556 shares of common stock issuable upon the exercise of vested and exercisable options and (e) 237,341 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. All the warrants have a cashless exercise feature. 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. Dr. Kallins is a director of the Company.

(9) Consists of (a) 132,773 shares of common stock issuable upon the conversion of convertible notes, (b) 126,668 shares of common stock issuable upon the exercise of vested and exercisable warrants, and (c) 463 shares of common stock issuable upon the exercise of vested and exercisable options. These warrants all have a cashless exercise feature (d) 65,501 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. The address of Zachary McAdoo is 635 Madison Avenue, 15th Floor, New York, NY 10022. Mr. McAdoo is a director of the Company.

(10) Consists of 463 shares of common stock issuable upon the exercise of vested and exercisable options. Mr. Dewald is a director of the Company.

(11) Consists of (a) 544,771 shares of common stock (b) 1,469,731 shares of common stock issuable upon the conversion of convertible notes, (c) 1,014,755 shares of common stock issuable upon the exercise of vested and exercisable warrants, (d) 208,652 shares of common stock issuable upon the exercise of vested and exercisable options and (e) 1,196,309 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature.

(12) Consists of (a) 296,361 shares of common stock (including 18,000 shares held by Mr. Brandt's children and 31,873 shares held by Brandt Ventures), (b) 15,937 shares of common stock issuable upon the exercise of vested and exercisable warrants which are held by Brandt Ventures and (c) 37,049 shares of common stock issuable upon the exercise of vested and exercisable options to purchase common stock held by Mr. Brandt. The 15,937 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) 267,657 shares of common stock issuable upon the conversion of convertible notes, (b) 116,668 shares of common stock issuable upon the exercise of vested and exercisable warrants, and (c) 248,864 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. 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) 25,735 shares of common stock, (b) 358,119 shares of common stock issuable upon conversion of convertible notes, and (c) 158,334 shares of common stock issuable upon exercise of vested and exercisable warrants. Of these amounts, (a) 22,699 shares of common stock, (b) 302,732 shares of common stock issuable upon conversion of convertible notes, (c) 133,334 shares of common stock issuable upon exercise of vested and exercisable warrants are held by Highland Long/Short Healthcare Fund, a series of Highland Funds I, a Delaware statutory trust ("Highland"), while the remainder are held by other funds advised by Cummings Bay Capital Management, L.P., a Delaware limited partnership (the "Adviser"), and (d) 335,178 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature, 282,834 is held by Highland Long/Short Healthcare Fund and 52,344 is held by Cummings Bay Capital Management, L.P. James D. Dondero is the President of Strand Advisors, Inc., a Delaware corporation ("Strand"), and Highland Capital Management Services, Inc., a Delaware corporation ("Highland Services"). Strand is the general partner of Highland Capital Management, L.P., a Delaware limited partnership ("Highland Capital"). Highland Capital is the investment advisor to Highland. Highland Services is the sole member of Cummings Bay Capital Management GP, LLC, a Delaware limited liability company (the "GP"). The GP is the general partner of the Adviser. The Adviser serves as the sub-advisor to Highland and the advisor and/or sub-advisor to certain other private

investment funds and managed accounts. The information in this footnote, with the exception of shares underlying notes including accrued interest, is based on Highland's Schedule 13G, filed with the SEC on January 6, 2011 (File No. 000-79934).

(15)Consists of (a) 52,636 shares of common stock, (b) 37,403 shares of common stock issuable upon the conversion of convertible notes, (c) 28,668 shares of common stock issuable upon the exercise of vested and exercisable warrants (of which 16,667 have a cashless exercise feature), (d) 200 shares of common stock issuable upon the exercise of vested and exercisable options, and (e) 35,137 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. Dr. Proler provides medical consulting services to the Company.

(16)Consists of (a) 173,125 shares of common stock issuable upon the conversion of a convertible note, and (b) 166,667 shares of common stock issuable upon the exercise of vested and exercisable warrants all of which have a cashless exercise feature (d) 85,396 shares of common stock issuable upon the exercise of vested and exercisable warrants which are issued to the noteholder upon the automatic conversion of their notes concurrent with the offering pursuant to the Conversion Agreement; such warrants have a cashless exercise feature. Mr. Steven Palmer is the President and CEO of AlphaNorth Asset Management ("AlphaNorth") and is the portfolio manager of AlphaNorth Offshore, Inc. AlphaNorth's principal business address is 144 Front Street West, Suite 420, Toronto, Ontario, Canada, M5J 2L7. These securities are held in the name of Scotia Capital ITF AlphaNorth Offshore, Inc. Acct 40300733.

Changes in Control

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

RELATED PARTY TRANSACTIONS

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 167,997 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 $9.00 ($3.00 post ratchet). 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, if we fail to perform any covenant or agreement as required by the October Notes or the related purchase agreement and such failure to perform any covenant or agreement is not cured within 10 days of receiving written notice thereof from a holder, or if we materially breach any representation or warranty in the October Notes or the related purchase agreement.

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 $9.00 ($3.00 post ratchet). 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	$15.00, with any adjustment being subject to a $9.00 floor	$9.00
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	$15.00 (Bridge Note); $16.80 (Deerwood Note)	$9.00
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 416,674 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 $9.00 ($3.00 post ratchet), 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, if we fail to perform any covenant or agreement as required by the January Notes or the related purchase agreement and such failure to perform any covenant or agreement is not cured within 10 days of receiving written notice thereof from a holder, or if we materially breach any representation or warranty in the January Notes or the related purchase agreement.

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 $9.00 ($3.00 post ratchet). 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. Pursuant to the terms of the amendment, the January Notes received 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. The amendment was effective as of September 30, 2011. Furthermore, holders of the January Notes will agree to amend such notes to add 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 $5 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").

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 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. The amendment was effective as of September 30, 2011. Furthermore, holders of the October Notes will agree to amend such notes to add a mandatory conversion provision to the terms of the October Notes. Under that provision, the October Notes will 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 $5 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 expected agreements amending the October Notes and January Notes (the "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 will agree to issue to each holder of October Notes and/or January Notes, as consideration for the mandatory conversion, warrants to purchase a number of shares of common stock equal to 50% of the number of shares of common stock to be received by each holder upon conversion of their notes (including accrued and unpaid interest thereon) at the closing of the Qualified Offering. These warrants would be issued after the Qualified Offering and would have the same terms as the warrants included in the units offered hereby. In addition, each holder of October Notes and/or January Notes would receive an additional warrant to purchase a number of shares of common stock corresponding to 50% of the number of shares issuable upon conversion of the principal amount of his or her notes, with such warrant having 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 41,667 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 2011 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 $3.00, 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, 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 will be amended to provide for mandatory conversion at a public offering of at least $5 million. 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, if the Company fails to perform any covenant or agreement as required by the 2011 Bridge Notes or the related purchase agreement and such failure to perform any covenant or agreement is not cured within 10 days of receiving written notice thereof from a holder, or if the Company materially breaches any representation or warranty in the 2011 Bridge Notes or the related 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 $3.00. 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 $3.00 and the associated warrants to purchase common stock at an exercise price of $3.00, 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 $9.00 to $3.00, the exercise price of the associated warrants was lowered from $9.00 to $3.00 per share, and the number of shares underlying such notes and warrants was proportionately increased.

On February 29, 2012, we issued subordinated unsecured convertible promissory notes (the "February Notes") in the aggregate principal amount of $90,000 and warrants to purchase 30,000 shares of our common stock to an entity affiliated with our director Zachary McAdoo. The terms of the February Notes and related warrants are substantially similar to the terms of the 2011 Bridge Notes and related warrants, except that the February Notes are not secured by our assets. The February Notes will be amended to provide for mandatory conversion at a public offering of at least $5 million.

The Company will agree to issue to each holder of the 2011 Bridge Notes and the February Notes, as consideration for the mandatory conversion, warrants to purchase a number of shares of common stock equal to 50% of the number of shares of common stock to be received by each holder upon conversion of their notes (including accrued and unpaid interest thereon) at the closing of the Qualified Offering. These warrants would be issued after the Qualified Offering and would have the same terms as the warrants included in the units offered hereby.

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 12,000 shares of our common stock and a five year non-callable warrant to purchase 6,000 shares of our common stock at an exercise price of $9.00 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 8,334 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 February 29, 2012 of $4,700 has been 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 Warrants to purchase a number of shares of common stock at the closing of the Qualified Offering, the terms of which are described under "— Amendment of October Notes and January Notes" above. 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 $3.00 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, until April 2011 was one of five managing members of SAIL Venture Partners, LLC, which is the general partner of SAIL. Mr. Jones remains a limited 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 3,334 shares of our common stock at a purchase price equal to $7.50 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 58,612 shares and Brandt receiving 31,873 shares. In addition, SAIL was issued a non-callable five year warrant to purchase 29,306 shares of common stock at an exercise price of $9.00 per share and Brandt was issued a non-callable five year warrant to purchase 15,937 shares of common stock at an exercise price of $9.00 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 6,000 shares of common stock and a five year non-callable warrant to purchase an additional 3,000 shares of common stock at an exercise price of $9.00 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 5,000 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 $16.80 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 41,667 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 51,228 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 5,000 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 34,152 shares of common stock. The warrants to purchase 3,334 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 31,250 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 10,417 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 41,667 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 41,667 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 20,834 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 20,834 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 February 29, 2012 of $114,500 has been 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 Warrants to purchase a number of shares of common stock at the closing of the Qualified Offering, the terms of which are described under "— Amendment of October Notes and January Notes"

above. 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 $3.00 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 had 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 27,136 shares of our common stock at an exercise price of $32.70 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 77,778 shares of our common stock and issued to relatives of Mr. Pappajohn warrants to purchase up to a total of 33,334 shares, all at a purchase price equal to $9.00 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 111,112 shares. In addition, pursuant to the terms of the note, Mr. Pappajohn received a five year non-callable warrant to purchase 55,556 shares of common stock at an exercise price of $9.00 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 111,112 shares of common stock to Mr. Pappajohn and a five year non-callable warrant to purchase 55,556 shares of common stock at an exercise price of $9.00 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 77,778 warrants and was issued 57,364 shares of common stock in a net exercise of warrants in lieu of cash transaction. Mr. Pappajohn received 57,364 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 8,333 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 $15.00 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 $15.00. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $9.00.

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 126,949 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 85,285 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 8,334 shares originally issued to him on July 25, 2010. As of February 29, 2012, Mr. Pappajohn holds October Notes in the aggregate principal amount of $761,700.

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 were adjusted to $3.00 and the number of underlying shares were adjusted accordingly.

On October 6, 2011 Mr. Pappajohn purchased 23,334 shares of CNS Response on the open market at a price of $3.30 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 41,667 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 83,334 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 83,334 shares of common stock for gross proceeds to the Company of $250,000 as part of the 2011 Bridge Financing. Again on December 27, 2011, the Company issued Mr. Pappajohn additional 2011 Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 83,334 shares of common stock for gross proceeds to the Company of $250,000 as part of the 2011 Bridge Financing. As of December 27, 2011, the Company has therefore issued 2011 Bridge Notes in the aggregate principal amount of $750,000 and warrants to purchase 250,002 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $750,000. Total interest as of February 29, 2012 on the October Notes and 2011 Bridge Notes of $117,600 has been accrued (but not been paid) on such notes at an interest rate of 9%.

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 services 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 agreement calls for a retainer fee of $10,000 per month starting February 1, 2010. On March 22, 2012, the Board ratified the extension of the Company's engagement agreement. As of February 29, 2012, we have accrued $97,600 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.

We received a short-term loan of $100,000 from our director John Pappajohn on April 26, 2012. This loan, evidenced by an interest-free demand note, is expected to be repaid immediately upon the consummation of the offering.

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 2,500 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 $16.80 per share.

SAIL Venture Partners L.P. ("SAIL"), of whose general partner our director David Jones used to be a managing member, 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 3,334 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 $16.80 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 $15.00. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $9.00. 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 92,895 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 41,667 shares. We also issued October Notes in the aggregate principal amount of $512,250, and related warrants to purchase up to 51,228 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 5,000 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 February 29, 2012, 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 February 29, 2012 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 Warrants to purchase a number of shares of common stock at the closing of the Qualified Offering, the terms of which are described under "— Amendment of October Notes and January Notes" above. 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 $3.00 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., ("Zanett") a Bermuda corporation for which McAdoo Capital, Inc. is the investment manager, purchased a 2011 Bridge Note in the aggregate principal amount of $250,000 and warrants to purchase 83,334 shares of common stock for cash payments aggregating $250,000. Mr. McAdoo is the president and owner of McAdoo Capital, Inc.

On January 27, 2012 we issued Zanett an additional 2011 Bridge Note in the aggregate amount of $40,000 and a warrant to purchase 13,334 shares of common stock for gross proceeds to the company of $40,000.

On February 29, 2012 we issued Zanett a subordinated unsecured promissory note ("February Note") in the aggregate principal amount of $90,000 and a warrant to purchase 30,000 shares of common stock for gross proceeds to the Company of $90,000. The terms of the February Notes and related warrants are substantially similar to the terms of the 2011 Bridge Notes and related warrants, except that the February

Notes are not secured by our assets. Total interest as at February 29, 2012 of $6,800 has accrued (but not been paid) on such notes at an interest rate of 9%.

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 6,000 shares of our common stock and a five year non-callable warrant to purchase 3,000 shares of our common stock at an exercise price of $9.00 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 8,334 shares pursuant to the January Note Purchase Agreement. As of February 29, 2012, Mr. Buck held 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 February 29, 2012 of $4,700 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 Warrants to purchase a number of shares of common stock at the closing of the Qualified Offering, the terms of which are described under "— Amendment of October Notes and January Notes" above. 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 $3.00 and the number of underlying shares were adjusted accordingly.

On October 6, 2011 Mr. Buck purchased 3,334 shares of CNS Response on the open market at a price of $3.00.

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 33,334 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 February 29, 2012, 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 February 29, 2012 of $81,800 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 66,667 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 February 29, 2012, 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 February 29, 2012 of $95,600 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 Warrants to purchase a number of shares of common stock at the closing of the Qualified Offering, the terms of which are described under "— Amendment of October Notes and January Notes" above. 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 $3.00 and the number of underlying shares were adjusted accordingly.

On January 26, 2012, a 2011 Bridge Note in the aggregate principal amount of $500,000 and a warrant to purchase 166,667 shares of common stock was issued to AlphaNorth Offshore Inc., which as a result became the beneficial owner of more than 5% of our outstanding common stock. Mr. Steven Palmer is the President and CEO of AlphaNorth Asset Management ("AlphaNorth") and is the portfolio manager of AlphaNorth Offshore, Inc. AlphaNorth's principal business address is 144 Front Street West, Suite 420, Toronto, Ontario, Canada, M5J 2L7. Total interest as at February 29, 2012 of $4,300 has accrued (but not been paid) on such notes at an interest rate of 9%.

Transaction with Staff Members of Equity Dynamics, Inc.

On July 5, 2010 the Board granted warrants to purchase 16,668 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 $9.00 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."

DESCRIPTION OF SECURITIES

In this offering, we are offering units, consisting of shares of common stock and warrants to purchase shares of common stock. The common stock and warrants will be sold in units, with each unit consisting of two shares of common stock and one warrant to purchase one share of common stock. The units may not be separated into the underlying shares of common stock and warrants until the earlier of (1) the exercise in full of the underwriters' over-allotment option or (2) forty-five (45) days from the date of this prospectus supplement; and thereafter, the units may be separable only upon the request of a holder. Each warrant will have an initial exercise price of $ per share, will be exercisable upon separation of the units and will expire on _____. The shares of common stock issuable from time to time upon exercise of the warrants, if any, are also being offered pursuant to this offering.

Units

Each unit consists of two shares of common stock and one warrant to purchase one share of common stock. The units may not be separated into the underlying shares of common stock and warrants until the earlier of (1) the exercise in full of the underwriters' over-allotment option or (2) forty-five (45) days from the date of this offering; and thereafter, the units may be separable only upon the request of a holder. The units will be issued in registered form.

Capital Stock

The information set forth below is a general summary of our capital stock structure. As a summary, this Section is qualified by, and not a substitute for, the provisions of our Certificate of Incorporation, as amended, and Bylaws, as amended.

Authorized Capital Stock

Our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.001 per share.

Reverse Split of our Common Stock

At a Special Stockholders Meeting on January 27, 2012, our stockholders approved a proposal to amend our Certificate of Incorporation for the purposes of effecting a reverse stock split of our common stock at a specific ratio within a range from 1 for 10 to 1 for 50 and simultaneously with the reverse split, reducing the number of authorized shares of common stock available for issuance from 750,000,000 to 100,000,000, and to authorize our Board of Directors to determine, in its discretion, the timing of the amendment and the specific ratio of the reverse stock split. On March 28, 2012, our Board set a reverse split ratio of 1-for-30. On March 30, 2012, we filed an amendment to our Certificate of Incorporation to effect the reverse split and change in authorized shares, which became effective at 5:00 p.m., Pacific Time, on April 2, 2012 (the "Effective Time").

At the Effective Time, immediately and without further action by our stockholders, every 30 shares of our common stock issued and outstanding immediately prior to the Effective Time were automatically converted into one share of our common stock. No fractional shares of our common stock were issued as a result of the reverse split. In those cases where the reverse split would otherwise have left a stockholder with a fraction of a share, the number of shares due to the stockholder was rounded up. All outstanding options and warrants to purchase shares of our common stock were adjusted as a result of the reverse split. In particular, the number of shares issuable upon the exercise of each instrument was reduced, and the exercise price per share, if applicable, was increased, in accordance with the terms of each instrument and based on the ratio of the reverse split.

The reverse split was effected with the goal of obtaining a price per share of at least $4.00 in the offering to which this prospectus relates, to enable us to list our shares on the Nasdaq Capital Market. However, since the underwriters currently intend to offer a lesser number of securities in this offering as had initially been contemplated, the Company will not satisfy the initial listing requirements of the Nasdaq Capital Market, even at the assumed offering price of $ per unit (or $ per share). Accordingly, our shares will not qualify for listing on the Nasdaq Capital Market, which the reverse split was intended to facilitate.

Common Stock Outstanding and Reserved for Issuance

As of April 30, 2012, we had 1,874,175 shares of common stock issued and outstanding. In addition, we have reserved 566,532 shares of common stock for issuance in respect of options to purchase common stock and 2,194,270 shares of common stock were reserved for issuance pursuant to issued and outstanding warrants to purchase our common stock. Furthermore, (i) 1,148,895 shares of common stock were reserved for secured convertible notes ("October Notes") in the aggregate principal amount of $3,023,938 plus accrued interest at April 30, 2012, which are convertible at $3.00 per share, (ii) 918,576 shares of common stock were reserved for secured subordinated convertible notes ("January Notes") in the aggregate principal amount of $2,500,000 plus accrued interest at April 30, 2012, which are also convertible at $3.00 per share, (iii) 688,966 shares of common stock were reserved for secured subordinated convertible notes ("2011 Bridge Notes") in the aggregate principal amount of $2,000,000 plus accrued interest at April 30, 2012, which are also convertible at $3.00 per share, and (iv) 30,457 shares of common stock were reserved for an unsecured convertible note in the aggregate principal amount of $90,000 plus accrued interest at April 30, 2012, which is also convertible at $3.00 per share.

These numbers do not include ____ shares issuable upon exercise of ____ warrants that we will issue in connection with the consummation of this offering to holders of our convertible notes and Placement Agent Warrants.

Dividend Rights

The holders of outstanding shares of common stock are entitled to receive dividends out of funds legally available at the times and in the amounts that our Board may determine. However, to date we have not paid or declared cash distributions or dividends on our common stock and do not currently intend to pay cash dividends on our common stock in the foreseeable future. We 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 based upon our earnings, financial condition, capital requirements and other relevant factors.

Voting Rights

Each holder of our common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders.

No Preemptive or Similar Rights

Holders of our common stock do not have preemptive rights, and common stock is not convertible or redeemable.

Right to Receive Liquidation Distributions

Upon our dissolution, liquidation or winding-up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock.

Warrants

The following summary of certain terms and provisions of the warrants offered hereby is not complete and is subject to, and qualified in its entirety by, the provisions of the form of the warrant, which will be filed as an exhibit herein. Prospective investors should carefully review the terms and provisions set forth in the form of warrant.

Exercisability. The warrants are exercisable upon separation of the units as set forth above and at any time up to ____________. The warrants will be exercisable, at the option of each holder, in whole or in part by delivering to us a duly executed exercise notice accompanied by payment in full for the number of shares of our common stock purchased upon such exercise (except in the case of a cashless exercise as discussed below). Unless otherwise specified in the warrant, the holder will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of shares of our common stock outstanding immediately after giving effect to the exercise, as such percentage ownership is determined in accordance with the terms of the warrants.

Cashless Exercise. In the event that a registration statement covering shares of common stock underlying the warrants, or an exemption from registration, is not available for the resale of such shares of

common stock underlying the warrants, the holder may, in its sole discretion, exercise the warrant in whole or in part, provided that, in lieu of making the cash payment otherwise contemplated to be made to us upon such exercise in payment of the aggregate exercise price, the holder shall instead to receive upon such exercise the net number of shares of common stock determined according to the formula set forth in the warrant. In no event shall we be required to make any cash payments or net cash settlement to the registered holder in lieu of issuance of common stock underlying the warrants.

Exercise Price and Certain Adjustments. The initial exercise price per share of common stock purchasable upon exercise of the warrants is $___ per share. The exercise price and the number of shares of common stock purchasable upon the exercise of the warrants are subject to adjustment upon the occurrence of certain events, including stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting our common stock and also upon any distributions of assets, including cash, stock or other property to our stockholders.

Transferability. Subject to applicable laws, the warrants may be transferred at the option of the holders upon surrender of the warrants to us together with the appropriate instruments of transfer.

Warrant Agent and Exchange Listing. The warrants will be issued in registered form under a warrant agreement between us and American Stock Transfer & Trust Company, as warrant agent.

Fundamental Transaction. If, at any time while the warrants are outstanding, (1) we consolidate or merge with or into another corporation and we are not the surviving corporation, (2) we sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of our assets, (3) any purchase offer, tender offer or exchange offer (whether by us or another individual or entity) is completed pursuant to which holders of our shares of common stock are permitted to sell, tender or exchange their shares of common stock for other securities, cash or property and has been accepted by the holders of 50% or more of our outstanding shares of common stock, (4) we effect any reclassification or recapitalization of our shares of common stock or any compulsory share exchange pursuant to which our shares of common stock are converted into or exchanged for other securities, cash or property, or (5) we consummate a stock or share purchase agreement or other business combination with another person or entity whereby such other person or entity acquires more than 50% of our outstanding shares of common stock, each, a “Fundamental Transaction,” then upon any subsequent exercise of the warrants, the holders thereof will have the right to receive the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of warrant shares then issuable upon exercise of the warrant, and any additional consideration payable as part of the Fundamental Transaction.

Rights as a Stockholder. Except as otherwise provided in the warrants or by virtue of such holder’s ownership of shares of our common stock, the holder of a warrant does not have the rights or privileges of a holder of our common stock, including any voting rights, until the holder exercises the warrant.

Outstanding Warrants

At April 30, 2012, the following warrants were outstanding:

Common Stock Warrants	Exercise Price	Expiration Period/Year	Description
12,481	$54.00	in 2012	issued to investors in connection with private placement which was completed concurrently with the Merger on March 7, 2007
17,349	$43.20	in 2012	issued to placement agent in connection with the private placement which was completed concurrently with the Merger on March 7, 2007
3,334	$ 7.50	in 2016	issued to Sail Venture Partners, LLC., in connection with a bridge note of $200,000 which was executed on May 14, 2009

Common Stock Warrants		Exercise Price	Expiration Period/Year	Description
	410,751	$ 9.00	in 2014 through January 2015	issued to investors who participated in our private placement in which we raised gross proceeds of $5,579,000 between August, 2009 and January 2010
	49,172	$ 9.90	in 2014 through January 2015	issued to the placement agents in connection with the private placement in which we raised gross proceeds of $5,579,000 between August 2009 and January 2010
	16,668	$ 9.00	on July 4, 2017	issued to staff members of Equity Dynamics, Inc., who provided consulting services associated with the Company's financing activities. Equity Dynamics, Inc. is owned by Mr. Pappajohn.
	503,998	$ 3.00	in October and November 2017	issued to investors who participated in our October 2010 private placement in which we raised gross proceeds of $2 million and exchanged six promissory notes totaling in aggregate $1 million plus accrued interest
	16,668	$ 3.00	in October and November, 2015	issued to placement agent in connection with the October 2010 private placement in which we raised gross proceeds of $2 million and exchanged six promissory notes totaling in aggregate $1 million plus accrued interest
	416,674	$ 3.00	in January through April 2018	issued to investors who participated in our January – April 2011 private placement in which we raised gross proceeds of $2.5 million
	30,001	$ 3.00	in March and April 2016	issued to the placement agent in connection with the January – April 2011 private placement in which we raised gross proceeds of $2.5 million
	666,673	$ 3.00	in October 2016 through January 2017	issued to investors who participated in our October 2011 to January 2012 private placement in which we raised gross proceeds of $2.0 million
	20,501	$ 3.00	in October 2016 through January 2017	issued to the placement agent in connection with the October 2011 to January 2012 private placement in which we raised gross proceeds of $2.0 million
	30,000	$ 3.00	February 2017	issued to an investors who purchased an unsecured promissory note in February 2012
TOTAL	**2,194,270**	**$ 4.94**	**Average Exercise Price**	

Options

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.

On March 22, 2012, our Board of Directors approved the CNS Response, Inc. 2012 Omnibus Incentive Compensation Plan (the "2012 Plan"), and approved the grant of options to purchase 42,667 shares of

common stock pursuant to such plan at an exercise price of $3.00 per share, including options to purchase 8,334 shares to each of our directors Zachary McAdoo and Maurice DeWald. The 2012 Plan will be submitted for approval to our stockholders at our 2012 Annual Meeting of Stockholders. Absent stockholder approval, the options will be cancelled and the 2012 Plan will not become effective.

For more information on the 2006 Plan and 2012 Plan, please see "*Executive Compensation.*"

Anti-Takeover Provisions

Delaware has enacted the following legislation that may deter or frustrate takeovers of Delaware corporations, such as CNS Response:

Section 203 of the Delaware General Corporation Law. Section 203 provides, with some exceptions, that a Delaware corporation may not engage in any of a broad range of business combinations with a person or affiliate, or associate of the person, who is an "interested stockholder" for a period of three years from the date that the person became an interested stockholder unless: (i) the transaction resulting in a person becoming an interested stockholder, or the business combination, is approved by the board of directors of the corporation before the person becomes an interested stockholder; (ii) the interested stockholder acquires 85% or more of the outstanding voting stock of the corporation in the same transaction that makes it an interested stockholder, excluding shares owned by persons who are both officers and directors of the corporation, and shares held by some employee stock ownership plans; or (iii) on or after the date the person becomes an interested stockholder, the business combination is approved by the corporation's board of directors and by the holders of at least 66 2/3% of the corporation's outstanding voting stock at an annual or special meeting, excluding shares owned by the interested stockholder. An "interested stockholder" is defined as any person that is (a) the owner of 15% or more of the outstanding voting stock of the corporation or (b) an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether the person is an interested stockholder.

Authorized but Unissued Stock. The authorized but unissued shares of our common stock are available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future public offering to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock may enable our Board to issue shares of stock to persons friendly to existing management, which may deter or frustrate a takeover of the company.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company. The address of American Stock Transfer & Trust Company is 59 Maiden Lane, New York, New York, and the phone number is (718) 921-8201.

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.

The Company's shares are quoted on the OTCBB, under the symbol CNSOD.OB. Our shares are currently very thinly traded. Our average daily volume for the twelve months ended February 29, 2012 was 1,149 shares per day with no trades occurring on 115 out of 253 trading days. Consequently, management believes that the prices quoted on the OTC Bulletin Board may not accurately reflect the value of the Company's common shares.

We have never paid dividends on our common stock. CNS California has never paid dividends on its common stock. We intend to retain any future earnings for use in our business.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there was no established trading market public market for our common stock. We cannot assure you that a liquid trading market for our common stock will develop or be sustained after this offering. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock. Further, since a large number of shares of our common stock will not be available for sale shortly after this offering because of the contractual and legal restrictions on resale described below, sales of substantial amounts of our common stock in the public market after these restrictions lapse, or the perception that such sales may occur, could adversely affect the prevailing market price and our ability to raise equity capital in the future. We cannot assure you that there will be an active public market for our common stock.

Upon completion of this offering and assuming the issuance of ____ units offered hereby (not including the overallotment option) and the conversion of all of our convertible notes in connection with the offering, but no exercise of outstanding options or warrants, we will have an aggregate of ____ shares of common stock outstanding. The ____ units sold in this offering will be freely tradable without restriction or further registration under the Securities Act of 1933, except for any shares purchased by our “affiliates,” as that term is defined in Rule 144 under the Securities Act of 1933, whose sales would be subject to certain limitations and restrictions described below.

Of the remaining 4,661,069 shares of common stock held by existing stockholders and outstanding as of April 30, 2012 or issuable upon conversion of all of our outstanding convertible notes, 1,582,361 are registered for resale pursuant to an effective registration statement or have otherwise been resold and are no longer subject to resale restrictions. Many of the remaining shares may be deemed “restricted securities” as that term is defined in Rule 144 and may not be resold except pursuant to an effective registration statement or an applicable exemption from registration, including Rule 144. 623,142 of our currently outstanding shares of common stock will be subject to “lock-up” agreements described below on the effective date of this offering. On the effective date of this offering, including the ____ units to be issued in this offering and shares issuable upon conversion of all of our outstanding convertible notes, there will be ____ shares outstanding that are not subject to lock-up agreements and eligible for sale pursuant to Rule 144 or pursuant to an effective registration statement. Upon expiration of the initial lock-up period 180 days after the pricing of this offering, 1,677,506 (50% of 3,355,012) outstanding shares will become eligible for sale, subject in most cases to the limitations of Rule 144. Upon expiration of the subsequent 6-month lock-up period, an additional 1,677,506 shares (the remaining 50%) will become eligible for sale, subject in most cases to the limitations of Rule 144. In addition, holders of stock options and warrants could exercise such options or warrants and sell certain of the shares issued upon exercise as described below. See “Underwriting.”

Days After Date of this Prospectus	Shares Eligible for Sale	Comment
Upon Effectiveness	____	Units sold in the offering.
Upon Effectiveness	1,251,033	Currently outstanding shares that are freely saleable under Rule 144 or pursuant to an effective registration statement or otherwise that are not subject to the lock-up.
180 Days	311,571	Lock-up released on 50% of locked-up shares; shares saleable under Rule 144 and Rule 701.
360 Days	311,571	Lock-up released on remaining 50% of locked-up shares; shares saleable under Rule 144 and Rule 701.

Rule 144

In general, under Rule 144, beginning ninety days after the date of this prospectus, a person who is not our affiliate and has not been our affiliate at any time during the preceding three months will be entitled to sell any shares of our common stock that such person has held for at least six months, including the holding period of any prior owner other than one of our affiliates, without regard to volume limitations. Sales of our common stock by any such person would be subject to the availability of current public information about us if the shares to be sold were held by such person for less than one year.

In addition, under Rule 144, a person may sell shares of our common stock acquired from us immediately upon the completion of this offering, without regard to volume limitations or the availability of public information about us, if:

- the person is not our affiliate and has not been our affiliate at any time during the preceding three months; and
- the person has beneficially owned the shares to be sold for at least six months, including the holding period of any prior owner other than one of our affiliates.

Beginning ninety days after the date of this prospectus, our affiliates who have beneficially owned shares of our common stock for at least six months, including the holding period of any prior owner other than another of our affiliates, would be entitled to sell within any three-month period those shares and any other shares they have acquired that are not restricted securities, provided that the aggregate number of shares sold does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately ____ shares immediately after this offering; or
- the average weekly trading volume in our common stock on the listing exchange during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates are generally subject to the availability of current public information about us, as well as certain “manner of sale” and notice requirements.

Lock-up Agreements

Our directors, officers, principal shareholders (being those shareholders holding over 5% of the shares of our common stock after the offering) and certain holders of outstanding convertible notes have agreed that, for a period of 180 days after the pricing of the offering, they will not, without the consent of the Company and subject to certain exceptions:

- directly or indirectly, offer, sell, contract to sell, sell, contract to sell, grant any option to purchase, grant any rights with respect to, or otherwise dispose of (other than to donees who agree to be similarly bound) their shares, including shares issuable upon conversion or exercise of other securities (after 180 days and prior to the expiration of 12 months, this restriction applies to 50% of such shares), or
- engage in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the shares of common stock even if such shares would be disposed of by someone other than the party to the agreement — this would include, without limitation, any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the shares of common stock or with respect to any security that includes, relates to, or derives any significant part of its value from such securities.

Each holder signing a lock-up agreement further agreed that in the event at the time he wished to effect a sale as permitted under the agreement during the second six month-period and the Company has under retainer an investment banking company as its financial advisor, then such advisor shall have the right of first refusal to purchase such securities for a period of 1 business day after it has received written notice of the proposed sale.

Securities Subject to Contractual Restriction on Transfer

Designation of Class	Number of securities that are subject to a contractual restriction on transfer	Percentage of class
common stock	623,142*	33%

* Not including 2,786,894 shares issuable upon conversion of all of our convertible notes, shares issuable under outstanding warrants or options or shares issuable under warrants to be issued to the holders of our convertible notes in connection with the closing of this offering.

Stock Options

As of April 30, 2012, options to purchase 566,532 shares of our common stock with a weighted average exercise price of $17.32 per share, were outstanding. Many of these options are subject to vesting that generally occurs over a period of up to four years following the date of grant. Accordingly, common stock registered a registration statement will, after expiration of any lock-up agreements, be eligible for immediate sale in the open market, except for shares acquired by affiliates, which will be subject to the requirements of Rule 144 described above. See "Shares Eligible for Future Sale — Rule 144."

Warrants

As of April 30, 2012, we had outstanding fully exercisable warrants to purchase up to 2,194,270 shares of our common stock (after giving effect to the Capital Reorganization), with a weighted average exercise price of $4.94 per share, all of which will be outstanding upon completion of this offering. Of those warrants, 613,634 are registered for resale under our resale registration statement. See "Description of Securities — Warrants."

UNDERWRITING

In accordance with the terms and conditions contained in the underwriting agreement, we have agreed to sell to each of the underwriters named below, and each of the underwriters, for which Aegis Capital Corp. is acting as the representative, has, severally, and not jointly, agreed to purchase from us, on a firm commitment basis the units offered in this offering set forth opposite their respective names below:

Underwriters	Number of Units
Aegis Capital Corp.	
Cantor Fitzgerald & Co.	
Noble Financial Capital Markets	
Ascendiant Capital Markets LLC	
Total	

A copy of the underwriting agreement is filed as an exhibit to the registration statement of which this prospectus forms a part.

We have been advised by the representative of the underwriters that the underwriters propose to offer the units directly to the public at the public offering price set forth on the cover page of this prospectus. Any units sold by the underwriters to securities dealers will be sold at the public offering price less a selling concession not in excess of $ per unit.

The underwriting agreement provides that the underwriters' obligations to purchase the units are subject to conditions contained in the underwriting agreement. The underwriters are obligated to purchase and pay for all of the units offered by this prospectus other than those covered by the over-allotment option, if any of these securities are purchased.

Commissions and Discounts

The following table summarizes the compensation to be paid to the underwriters by us and the proceeds, before expenses, payable to us, at the public offering price of $ per unit. The information assumes either no exercise or full exercise by the underwriters of the over-allotment option.

		Total	
	Per Unit	Without Over-Allotment	With Over-Allotment
Public offering price	$	$	$
Underwriting discount[(1)]	$	$	$
Non-accountable expense allowance[(2)]	$	$	$
Accountable expenses[(3)]			
Proceeds, before expenses, to us[(4)]	$	$	$

(1) Underwriting discount is $ per unit (7% of the price of the units sold in this offering).

(2) The non-accountable expense allowance of 1% is not payable with respect to the units sold upon exercise of the underwriters' over-allotment option.

(3) The accountable expenses relate to officer and director background checks ($15,000), book building software ($20,000) and road show expenses ($20,000).

(4) We estimate that the total expenses of this offering, excluding the underwriting discount, the non-accountable expense allowance and accountable expenses, are approximately $.

We are not under any contractual obligation to engage any of the underwriters to provide investment banking, lending, asset management or financial advisory services to us in the future. If any of the underwriters provide such services to us after this offering, we may pay such underwriter fair and reasonable fees that would be determined at that time in an arm's length negotiation. However, we will not enter into any agreement with any of the underwriters, nor will we pay any fees for such services to any of the underwriters,

prior to the date which is 90 days after the date of this offering, unless the Financial Industry Regulatory Authority, Inc. determines that such payment would not be deemed underwriters' compensation in connection with the offering.

Over-allotment Option

We have granted to the underwriters an option, exercisable not later than 45 days after the date of this prospectus, to purchase up to __ units at the public offering price, less the underwriting discount, set forth on the cover page of this prospectus. The representative may exercise the option solely to cover over-allotments, if any, made in connection with this offering. If any additional units are purchased pursuant to the over-allotment option, the underwriters will offer these additional units on the same terms as those on which the other units are being offered hereby.

Lock-up Agreements

Our directors, officers and principal shareholders (being those shareholders holding over 5% of the shares of our common stock after the offering) have agreed that, for a period of 180 days after the closing of this offering, they will not, without the consent of Aegis Capital Corp. and subject to certain exceptions:

- directly or indirectly, offer, sell, contract to sell, lend or enter into any other agreement to transfer the economic consequences of, or otherwise dispose of or deal with, or publicly announce any intention to offer, sell, contract to sell, grant or sell any option to purchase, hypothecate, pledge, transfer, assign, purchase any option or contract to sell, lend or enter into any agreement to transfer the economic consequences of, or otherwise dispose of or deal with, whether through the facilities of a stock exchange, by private placement or otherwise, any of our common shares or other securities of us held by them, directly or indirectly, or establish or increase a "put equivalent position" or liquidate or decrease a "call equivalent position" within the meaning of Section 16 of the Exchange Act, with respect to, any shares of our common stock, or any securities convertible into or exchangeable or exercisable for, or warrants or other rights to purchase, the foregoing;
- file or cause to become effective a registration statement under the Securities Act of 1933, or file any similar offering document in any other jurisdiction, relating to the offer and sale of any shares of our common stock or securities convertible into or exercisable or exchangeable for shares or our common stock or other rights to purchase shares of our common stock or any other of our securities that are substantially similar to shares or our common stock, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing;
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of shares of our common stock or any other of our securities that are substantially similar to shares of our common stock, or any securities convertible into or exchangeable or exercisable for, or any warrants or other rights to purchase, the foregoing, whether any such transaction is to be settled by delivery of shares of our common stock or such other securities, in cash or otherwise; or
- publicly announce an intention to do any of the foregoing.

Securities Subject to Contractual Restriction on Transfer

Designation of Class	Number of securities that are subject to a contractual restriction on transfer	Percentage of class
common stock	623,142*	33%

* Not including 2,786,894 shares issuable upon conversion of all of our convertible notes, shares issuable under outstanding warrants or options or shares issuable under warrants to be issued to the holders of our convertible notes in connection with the closing of this offering.

In addition, we have agreed that we will not issue, authorize, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file any prospectus or registration statement relating to issuance or the offering of any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale,

pledge, disposition or filing, without the prior written consent of Aegis Capital Corp. for a period of 90 days after the closing of the offering, except for the issuance of (a) the units offered in this offering; (b) the shares of our common stock issuable upon the exercise, conversion or exchange of options, warrants, exchangeable shares or other securities outstanding as of the date of this prospectus and disclosed in this prospectus (provided that the grantee of any such options is subject to a similar lock-up provision); (c) shares in connection with a bona fide acquisition; and (d) grants of options to purchase shares of our common stock that are reserved for issuance under our stock option plans (in an amount not greater than 3% of the shares issued and outstanding following the closing of the offering. To the extent shares of our common stock are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our common stock could decline.

Representative's Common Stock Purchase Option. We have agreed to issue to the representative an option to purchase up to a total of _____ shares of common stock. The option is exercisable at $ per share commencing on a date which is one year from the date of the closing of the offering under this prospectus and expiring five years after the effective date of our registration statement, or , 2017. The option has been deemed compensation by FINRA and is therefore subject to a 180-day lock-up restriction immediately following the date of effectiveness or commencement of sales of this offering pursuant to Rule 5110(g)(1) of FINRA. The representative (or permitted assignees under the Rule) will not sell, transfer, assign, pledge, or hypothecate the option or the securities underlying the option, nor will it engage in any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the option or the underlying securities for a period of 180 days from the date of this prospectus. In addition, the option provides for registration rights upon request, in certain cases. We will bear all fees and expenses attendant to registering the securities issuable on exercise of the option other than underwriting commissions incurred and payable by the holders. The exercise price and number of shares issuable upon exercise of the option may be adjusted in certain circumstances including in the event of a stock dividend, extraordinary cash dividend or our recapitalization, reorganization, merger or consolidation. However, the option exercise price or underlying shares will not be adjusted for issuances of shares of common stock at a price below the option exercise price.

Right of First Refusal. Until , the representative shall have a right of first refusal to purchase for its account or to sell for our account, or any subsidiary or successor, any securities of our company or any such subsidiary or successor which we or any subsidiary or successor may seek to sell in public or private equity and public debt offerings during such twelve (12)-month period. We may, however, in lieu of granting a right of first refusal, designate the representative as lead underwriter or co-manager of any underwriting group or co-placement agent of any proposed financing, and the representative shall be entitled to receive as its compensation 50% of the compensation payable to the underwriting or placement agent group when serving as co-manager or co-placement agent, and 33% of the compensation payable to the underwriting or placement agent group when serving as co-manager or co-placement agent with respect to a proposed financing in which there are three underwriters or co-placement agents.

Other Underwriters' Compensation. In addition to the compensation we have agreed to pay the underwriters in connection with this offering, and as additional compensation to the underwriters, we have agreed to pay the following:

- all fees, expenses and disbursements relating to background checks of our officers and directors in an amount not to exceed $5,000 per individual and an aggregate amount of $15,000;
- $20,000 for the cost associated with the use of Ipreo's book building, prospectus tracking and compliance software for this offering; and
- up to $20,000 of the underwriters' actual accountable "road show" expenses.

We have paid an expense deposit of $25,000 to the representative, which will be applied against the non-accountable expenses that will be paid by us to the underwriters in connection with this offering. The underwriting agreement, however, provides that in the event the offering is terminated, the $25,000 expense deposit paid to the representative will be returned to the extent offering expenses are not actually incurred.

Offering Price Determination

The initial public offering price was negotiated between us and the underwriter. In addition to prevailing market conditions, the factors considered in determining the initial public offering price are our financial information, our historical performance, our future prospects and the future prospects of our industry in general, our capital structure, estimates of our business potential and earnings prospects, the present state of our development and an assessment of our management and the consideration of the above factors in relation to market valuation of companies engaged in businesses and activities similar to ours.

Price Stabilization, Short Positions and Penalty Bids

The rules of the SEC may limit the ability of the underwriter to bid for or purchase shares of our common stock before the distribution of the units under this offering is completed. However, the underwriter may engage in the following activities in accordance with these rules:

- stabilizing transactions that permit bids to purchase shares of our common stock so long as the stabilizing bids do not exceed a specified maximum; and
- penalty bids that permit the representatives to reclaim a selling concession from a syndicate member when the shares originally sold by the syndicate member under this offering are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of preventing or mitigating a decline in the market price of shares of our common stock, and may cause the price of shares of our common stock to be higher than would otherwise exist in the open market absent such stabilizing activities. As a result, the price of the shares of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Indemnification

We have agreed to indemnify the underwriter against certain liabilities relating to the offering, including liabilities under the Securities Act of 1933, liabilities under all other applicable securities laws and liabilities arising from breaches of the representations and warranties contained in the agency agreement, and to contribute to payments that the underwriter may be required to make for these liabilities.

NOTICE TO INVESTORS

The units offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such units be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any units offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

LEGAL MATTERS

SNR Denton US LLP will render a legal opinion as to the validity of the securities to be registered hereby. Certain legal matters in connection with this offering will be passed upon for the underwriter by Gersten Savage LLP.

EXPERTS

The consolidated financial statements included in this prospectus have been audited by Cacciamatta Accountancy Corporation, independent certified public accountants, to the extent and for the periods set forth in their reports appearing elsewhere herein, and are included in reliance on such reports given upon the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. We have also filed with the SEC under the Securities Act a registration statement on Form S-1 with respect to the common stock offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not contain all the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. Statements made in this prospectus regarding the contents of any contract or other document are summaries of the material terms of the contract or document. With respect to each contract or document filed as an exhibit to the registration statement, reference is made to the corresponding exhibit. For further information pertaining to us and the common stock offered by this prospectus, reference is made to the registration statement, including the exhibits and schedules thereto, copies of which may be inspected without charge at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 on official business days during the hours of 10 a.m. to 3 p.m.. Copies of all or any portion of the registration statement may be obtained from the SEC at prescribed rates. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The web site can be accessed at *http://www.sec.gov.* The internet address of CNS Response is *http://www.cnsresponse.com.*

INDEX TO FINANCIAL STATEMENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR YEARS ENDED SEPTEMBER 30, 2011 AND 2010	F-2
CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30, 2011 AND 2010	F-3
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010	F-4
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010	F-5
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR YEARS ENDED SEPTEMBER 30, 2011 AND 2010	F-6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010	F-7
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2012 AND 2011	F-36
CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2012 (UNAUDITED) AND SEPTEMBER 30, 2011	F-37
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND 2011	F-38
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY FOR THE SIX MONTHS ENDED MARCH 31, 2012 AND 2011	F-39
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	F-40

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, except for all share and per share numbers presented, as to which the date is April 3, 2012

CNS RESPONSE, INC.

CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30, 2011 and 2010

	As at September 30,	
	2011	**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 100,000,000 shares; 1,871,352 and 1,867,690 shares issued and outstanding as of September 30, 2011 and 2010	1,900	1,900
Additional paid-in capital	30,813,100	29,163,700
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	$ (4.74)	$ (4.69)
DILUTED NET LOSS PER SHARE	$ (4.74)	$ (4.69)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	1,869,038	1,742,570
Diluted	1,869,038	1,742,570

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at September 30, 2009	1,392,930	$ 1,400	$24,084,400	$(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	392,889	400	2,995,000	—	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	81,871	100	415,700	—	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	1,867,690	$ 1,900	$29,163,700	$(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	3,123	—	44,000	—	44,000
Value of warrants surrendered for cashless exercise	—	—	(200)	—	(200)
Stock issued for cashless exercise	539	—	200	—	200
Net loss for the year ended September 30, 2011	—	—	—	(8,866,600)	(8,866,600)
Balance at September 30, 2011	1,871,352	1,900	30,813,100	(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 PEER Online, advance physician training in rEEG and investigate practice development strategies associated with rEEG.

On March 28, 2012, the Company's Board set a reverse split ratio of 1-for-30 of its common stock. On March 30, 2012, the Company filed an amendment to its Certificate of Incorporation to effect the reverse split and change in authorized shares, which became effective at 5:00 pm PDT on April 2, 2012.

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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

All share and per share numbers presented have been retroactively adjusted to reflect the 1-for-30 reverse stock split of the common stock on April 2, 2012 and a simultaneous reduction in authorized shares to 100,000,000.

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 $15.00 per share and had warrants exercisable at strike price between $15.00 and $16.80. 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 $9.00 per share, 50% warrant coverage exercisable at $9.00 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

(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 IFRS. 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

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 6,000 shares of our common stock and a five year non-callable warrant to purchase 3,000 shares of our common stock at an exercise price of $9.00 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 168,002 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 138,897 shares of common stock to twelve accredited investors.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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	As of September 30, 2011 Balance ($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
Secured 9% Notes Convertible at $9.00 (the "October Notes")(12)							
John Pappajohn	(1)	10/1/2012	$ 761,700	$ —	$ 761,700	42,317	9/30/2017
Deerwood Partners, LLC	(2)	10/1/2012	256,100	(32,000)	224,100	8,538	11/2/2017
Deerwood Holdings, LLC	(2)	10/1/2012	256,100	(32,000)	224,100	8,538	11/2/2017
SAIL Venture Partners, LP	(2)		—	—	—	11,384	11/2/2017
SAIL Venture Partners, LP	(3)	10/1/2012	250,000	—	250,000	13,889	9/30/2017
Fatos Mucha	(10)	10/1/2012	100,000	—	100,000	5,556	10/11/2017
Andy Sassine	(4)	10/1/2012	500,000	—	500,000	27,778	10/10/2017
JD Advisors	(10)	10/1/2012	150,000	(6,300)	143,700	8,334	10/20/2017
Queen Street Partners	(10)	10/1/2012	100,000	(4,200)	95,800	5,556	10/27/2017
BGN Acquisitions	(2)	10/1/2012	250,000	(31,200)	218,800	13,889	11/2/2017
Highland Long/Short Fund Healthcare Fund	(5)	10/1/2012	400,000	(50,000)	350,000	22,223	11/9/2017
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	1,112	10/11/2015
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	4,446	11/11/2015
Total Secured Convertible Promissory notes		10/1/12	$3,023,900	$(155,700)	$2,868,200	173,560	2015 – 2017

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

Note Type and Investor		Amended Due Date	Balance ($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
Subordinated 9% Notes Convertible at $9.00 (the "January Notes")[13]							
Meyer Proler MD	(7)	10/1/2012	$ 50,000.00	$ (12,500)	$ 37,500	2,778	1/19/2018
William F. Grieco	(10)	10/1/2012	100,000.00	(33,300)	66,700	5,556	2/2/2018
Edward L. Scanlon	(10)	10/1/2012	200,000.00	(66,700)	133,300	11,112	2/6/2018
Robert Frommer Family Trust	(8)	10/1/2012	50,000.00	(4,700)	45,300	2,778	2/14/2018
Paul Buck	(9)	10/1/2012	50,000.00	(4,700)	45,300	2,778	2/14/2018
Andy Sassine	(4)	10/1/2012	200,000.00	(75,000)	125,000	11,112	2/22/2018
SAIL Venture Partners, LP	(3)	10/1/2012	187,500.00	(78,100)	109,400	10,417	2/26/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	62,500.00	(26,000)	36,500	3,473	2/26/2018
Highland Long/Short Healthcare Fund	(5)	10/1/2012	400,000.00	(166,700)	233,300	22,223	2/26/2018
Monarch Capital: Placement Agent Warrants	(6)	10/1/2012	—	—	—	6,112	2/27/2016
Rajiv Kaul	(10)	10/1/2012	100,000.00	(41,700)	58,300	5,556	3/2/2018
Meyer Proler MD	(7)	10/1/2012	50,000	(27,100)	22,900	2,778	04/04/2018
SAIL Venture Partners, LP	(3)	10/1/2012	250,000	(135,400)	114,600	13,889	04/14/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	250,000	(135,400)	114,600	13,889	04/14/2018
John M Pulos	(10)	10/1/2012	150,000	(81,300)	68,700	8,334	04/21/2018
SAIL Venture Partners, LP	(3)	10/1/2012	125,000	(67,700)	57,300	6,945	04/24/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	125,000	(67,700)	57,300	6,945	04/24/2018
Cummings Bay Capital LP	(5)	10/1/2012	150,000	(81,200)	68,800	8,334	04/24/2018
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	2,223	04/24/2016
Antaeus Capital: Placement Agent Warrants	(11)		—	—	—	1,667	04/21/2016
Total Subordinated Convertible Promissory notes		10/1/2012	$ 2,500,000	$(1,105,200)	$1,394,800	148,899	2016 – 2018
Totals			$ 5,523,900	$(1,260,900)	$4,263,000	322,459	

(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 8,334 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 $15.00 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 $15.00. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $9.00. Each Bridge Note accrued interest at a rate of 9% per annum.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 42,317 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 13,889 shares. We also issued October Notes in the aggregate principal amount of $511,700, and related warrants to purchase up to 28,428 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 8,334 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 2,500 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 $16.80 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 3,334 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 $16.80 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 $15.00. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $9.00.

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 42,348 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 13,889 shares. (b) We also issued October Notes in the aggregate principal amount of $512,200, and related warrants to purchase up to 17,075 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 5,000 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

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 11,384 shares of common stock. The warrants to purchase 3,334 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 1,112 shares of the Company's common stock at an exercise price of $9.90 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 6,112 shares of the Company's common stock at an exercise price of $9.90 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 2,223 shares of the Company's common stock at an exercise price of $9.90 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

(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 1,667 shares of the Company's common stock at an exercise price of $9.90 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 $9.00. 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 $9.00. 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

(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 3,889 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 322,459 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 656,464 shares of our common stock and Consideration Warrants would have been issued to purchase an aggregate of 196,940 shares of our common stock.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 100,000,000 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 3,123 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 $14.10 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 333,334 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 100,000 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

4. STOCKHOLDERS' EQUITY - (continued)

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 333,334 to 666,667 shares of stock. The amendment also increased the limit on shares issued within a calendar year to any eligible employee or director from 100,000 to 133,333 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 305,000 options to staff members, directors, advisors and consultants, of which 288,334 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 $16.50 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 26,667 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 $12.00 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 15,834 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 $14.10 per share was based on the quoted closing share price of the Company's stock on March 11, 2011.

As of September 30, 2011, 70,825 options were exercised and there were 524,201 options and 6,132 restricted shares outstanding under the amended 2006 Plan leaving 65,509 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

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

4. STOCKHOLDERS' EQUITY - (continued)

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	222,098	$ 22.80
Granted	315,000	16.20
Exercised	—	—
Forfeited	(14,702)	24.30
Outstanding at September 30, 2010	522,396	$ 18.60
Granted	15,834	14.10
Exercised	—	—
Forfeited	(14,029)	14.10
Outstanding at September 30, 2011	524,201	$ 19.88

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

4. STOCKHOLDERS' EQUITY - (continued)

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
$ 3.60	28,648	10 years	$ 3.60	28,648	4.9	$ 111,700
$ 3.96	32,928	10 years	$ 3.96	32,928	4.9	116,600
$ 9.00	4,525	10 years	$ 9.00	4,525	5.1	—
$ 17.70	953	10 years	$ 17.70	953	4.9	—
$ 24.00	4,667	10 years	$ 24.00	4,667	6.2	—
$ 26.70	32,297	10 years	$ 26.70	32,297	6.0	—
$ 28.80	11,767	10 years	$ 28.80	11,767	6.5	—
$ 32.70	83,790	10 years	$ 32.70	83,790	5.9	—
$ 36.00	8,109	5 years	$ 36.00	8,109	0.9	—
$ 12.00	28,535	10 years	$ 12.00	11,415	8.8	—
$ 14.10	15,834	10 years	$ 14.10	2,310	9.4	—
$ 15.30	1,373	10 years	$ 15.30	1,373	7.0	—
$ 16.50	270,775	10 years	$ 16.50	117,669	8.4	—
Total	524,201		$ 19.88	340,451	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 439,689 shares of our common stock, at exercise prices ranging from $3.60 per share to $32.70 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

4. STOCKHOLDERS' EQUITY - (continued)

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:
517,906		**Warrants outstanding at October 1, 2009**
196,451	$9.00	Warrants issued in second, third and fourth closing of the 2009 private placement transaction of 392,889 shares at $9.00 with 50% warrant coverage as described in Note 3.
40,009	$9.90	Warrants issued to lead and secondary placement agents for private placement as described in Note 3.
(111,112)	$9.00	Warrants surrendered in a net issue exercise and 2,456,126 shares were issued in lieu of cash.
16,668	$9.00	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.
28,428	$9.00	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 $15.00, were cancelled and exchanged on October 1, 2010 for two October Notes of $250,000 each plus unpaid interest and warrants to purchase 28,428 shares of common stock.
8,538	$9.00	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 2,500 outstanding warrants issued on August 20, 2010, with an exercise price of $16.80 were, cancelled and exchanged on November 3, 2010 for two October Notes of $125,000 each plus unpaid interest and warrants to purchase 8,538 shares of common stock.
8,538	$9.00	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 2,500 outstanding warrants issued on August 20, 2010, with an exercise price of $16.80, were cancelled and exchanged on November 3, 2010 for two October notes of $125,000 each plus unpaid interest and warrants to purchase 8,538 shares of common stock.
11,384	$9.00	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 above mentioned Deerwood notes which were issued on July 5 and August 20, 2010. For this guarantee SAIL was issued 3,334 warrants on August 20, 2010 with an exercise price of $16.80. 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 3,334 outstanding warrants which were replaced with new warrants in the amount of 11,384.
716,810		**Warrants outstanding at September 30, 2010**
111,100	$9.00	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.
5,558	$9.90	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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

4. STOCKHOLDERS' EQUITY - (continued)

Warrants	Exercise Price	Issued, Surrendered or Expired in Connection With:
		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 2,778 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 31,251 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 24,307 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 5,556 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 22,223 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 8,334 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 11,112 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 2,778 shares were issued to a trust, the trustee of which is the father-in-law of the Company's Chief Executive Officer, George Carpenter.
138,897	$9.00	9) Four January Notes in aggregate amount of $550,000 were issued to new accredited investors together with warrants to purchase 30,558 shares.
10,002	$9.90	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.
(1,412)	$0.30	Warrants expired
(565)	$0.30	Warrants were surrendered in a net issue exercise: 539 shares were issued in lieu of cash.
980,390		**Warrants outstanding at September 30, 2011**

At September 30, 2011, there were warrants outstanding to purchase 980,390 shares of the Company's common stock. The exercise price of the outstanding warrants range from $0.30 to $54.36 with a weighted average exercise price of $14.70. 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

5. INCOME TAXES - (continued)

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 12,000 and 6,000 shares of common stock and five year non-callable warrants to purchase 6,000 and 3,000 shares of common stock at an exercise price of $9.00 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 September 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

6. RELATED PARTY TRANSACTIONS - (continued)

The agreement was automatically renewed for an additional 12 month term effective January 1, 2011. As at September 30, 2011, $45,000 was accrued for this director under the consulting agreement.

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 16,668 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 $9.00 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 September 30, 2011 the Company had accrued $121,000 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.

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 2,778 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 2,778 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 11,112 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).

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

6. RELATED PARTY TRANSACTIONS - (continued)

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 10,417 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 3,473 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 22,223 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 13,889 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 13,889 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 13,889 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 6,945 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 8,334 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

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

6. RELATED PARTY TRANSACTIONS - (continued)

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 to (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)

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

7. REPORTABLE SEGMENTS - (continued)

	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	$ (4.74)	$ (4.69)
Diluted net income (loss) per share	$ (4.74)	$ (4.69)
Basic weighted average shares outstanding	1,869,038	1,742,571
Dilutive common equivalent shares	—	—
Diluted weighted average common shares	1,869,038	1,742,571
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	474,139	7,152
Warrants	908,033	639,827
Options	521,470	374,758

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

9. COMMITMENTS AND CONTINGENT LIABILITIES - (continued)

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 41,667 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $250,000. On October 31, 2011, the Company issued

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

11. SUBSEQUENT EVENTS - (continued)

Bridge Notes in the aggregate principal amount of $20,000 to an additional accredited investor, together with warrants to purchase 3,333 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 186,668 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 83,334 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 83,334 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 90,001 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 83,334 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 276,669 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 $3.00, 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)

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011

11. SUBSEQUENT EVENTS - (continued)

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 $3.00. 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 $3.00 conversion price of the Bridge Notes and the $3.00 exercise price of the related warrants. As a result, an aggregate of 1,007,976 and 833,334 shares of common stock are issuable upon conversion of the October Notes and January Notes, respectively, and an aggregate of 920,655 shares of common stock are issuable upon exercise of the warrants related to the October Notes and January Notes. Additionally, an aggregate of 30,000 shares of common stock are issuable upon exercise of warrants by placement agents.

Since September 30, 2011, 2,823 warrants with an exercise price of $0.30 have been exercised and 87,574 warrants with exercise prices ranging from $0.30 to $54.36 have expired.

CNS RESPONSE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the three months ended March 31,		For the six months ended March 31,	
	2012	2011	2012	2011
REVENUES				
Neurometric information services	$ 25,200	$ 29,200	$ 57,200	$ 56,400
Clinical services	188,900	162,600	341,200	283,200
	214,100	191,800	398,400	339,600
OPERATING EXPENSES				
Cost of neurometric services revenues	35,900	36,500	75,100	72,500
Research	67,400	119,300	137,100	330,300
Product development	162,800	116,400	275,300	260,800
Sales and marketing	315,000	347,500	645,100	594,300
General and administrative	1,051,000	1,079,200	2,112,000	2,133,100
Total operating expenses	1,632,100	1,698,900	3,244,600	3,391,000
OPERATING LOSS	(1,418,000)	(1,507,100)	(2,846,200)	(3,051,400)
OTHER INCOME (EXPENSE):				
Interest expense, net	(1,135,700)	(1,329,100)	(2,617,700)	(3,956,100)
Financing fees	(106,200)	(146,700)	(151,500)	(289,300)
Offering costs	(900)	—	(7,700)	—
Gain (Loss) on derivative liabilities	(5,733,700)	(3,963,400)	(5,501,700)	254,200
Total other expense	(6,976,500)	(5,439,200)	(8,278,600)	(3,991,200)
LOSS BEFORE PROVISION FOR INCOME TAXES	(8,394,500)	(6,946,300)	(11,124,800)	(7,042,600)
Income taxes	—	—	900	1,300
NET LOSS	$(8,394,500)	$(6,946,300)	$(11,125,700)	$(7,043,900)
NET LOSS PER SHARE:				
Basic (Note 7)	$ (4.48)	$ (3.72)	$ (5.94)	$ (3.77)
Diluted (Note 7)	$ (4.48)	$ (3.72)	$ (5.94)	$ (3.77)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	1,873,948	1,867,464	1,873,766	1,867,690
Diluted	1,873,948	1,867,464	1,873,766	1,867,690

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

TABLE OF CONTENTS

CNS RESPONSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	Unaudited As of March 31, 2012	As of September 30 2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 169,600	$ 93,400
Accounts receivable (net of allowance for doubtful accounts of $22,500 (unaudited) as of March 31, 2012 and $19,900 September 30, 2011 respectively)	38,800	54,400
Prepaids and other receivables	113,400	72,100
Deferred offering costs	324,000	103,000
Total current assets	645,800	322,900
Furniture & equipment	28,600	32,700
Other assets	30,500	14,400
TOTAL ASSETS	$ 704,900	$ 370,000
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable (including amounts due to related parties of $181,100 (unaudited) as of March 31, 2012 and $156,000 as of September 30, 2011)	$ 2,263,700	$ 1,778,900
Accrued liabilities	222,400	196,700
Accrued compensation (including $195,700 (unaudited) and $189,200 to related parties as of March 31, 2012 and September 30, 2011 respectively)	287,700	285,900
Accrued consulting fees (including $63,000 (unaudited) and $45,000 to related parties as of March 31, 2012 and September 30, 2011 respectively)	83,100	65,000
Accrued interest	689,700	384,500
Derivative liability	12,972,700	4,801,200
Senior secured convertible promissory notes – related party (net of discounts $0 (unaudited) and $155,700 as of March 31, 2012 and September 30, 2011 respectively)	3,023,900	2,868,200
Subordinated secured convertible promissory notes – related party (net of discounts $66,600 (unaudited) and $1,105,200 as of March 31, 2012 and September 30, 2011 respectively)	2,433,400	1,394,800
Subordinated secured convertible promissory notes – related party (net of discounts $1,416,700 (unaudited) and $0 as of March 31, 2012 and September 30, 2011 respectively)	583,300	—
Unsecured convertible promissory notes – related party (net of discounts $82,500 (unaudited) and $0 as of March 31, 2012 and September 30, 2011 respectively)	7,500	—
Current portion of long-term debt	6,200	6,100
Total current liabilities	22,573,600	11,781,300
LONG-TERM LIABILITIES		
Capital lease	7,200	10,200
Total long-term liabilities	7,200	10,200
TOTAL LIABILITIES	22,580,800	11,791,500
COMMITMENTS AND CONTINGENCIES	—	—
STOCKHOLDERS' DEFICIENCY		
Common stock, $0.001 par value; authorized 100,000,000 shares; 1,874,175 and 1,871,352 shares issued and outstanding as of March 31, 2012 and September 30, 2011 respectively	1,900	1,900
Additional paid-in capital	31,484,400	30,813,100
Accumulated deficit	(53,362,200)	(42,236,500)
Total stockholders' deficiency	(21,875,900)	(11,421,500)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 704,900	$ 370,000

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

CNS RESPONSE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended March 31,	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(11,125,700)	$ (7,043,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,100	6,000
Amortization of discount on bridge notes issued	2,402,800	1,577,100
Stock-based compensation	670,400	845,300
Issuance of warrants for financing services	56,800	126,000
Loss on derivative liability valuation	5,501,700	(254,200)
Non-cash interest expense	305,200	2,513,100
Changes in operating assets and liabilities		
Accounts receivable	15,600	(20,600)
Prepaids and other current assets	(41,300)	(14,400)
Accounts payable and accrued liabilities	307,400	(245,700)
Deferred compensation	1,800	157,800
Security deposit	4,600	(9,900)
Net cash used in operating activities	(1,891,600)	(2,363,400)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of furniture & equipment	(4,300)	(20,100)
Acquisition of intellectual property	(21,200)	—
Net cash used in operating activities	(25,500)	(20,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of note	—	(24,700)
Repayment of leases	(2,900)	(2,400)
New equipment lease	—	15,900
Net proceeds from bridge notes	1,995,300	1,840,000
Proceeds from exercise of warrants	900	1,334,000
Net cash provided by financing activities	1,993,300	3,162,800
Net increase in cash	76,200	779,300
Cash, beginning of period	93,400	62,000
Cash, end of period	169,600	841,300
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 4,400	$ 2,100
Income taxes	$ 900	$ 1,300
Fair value of intellectual property	$ 20,500	$ —
Non-cash financing activities:		
Offering costs	$ 221,000	$ —

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

CNS RESPONSE, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY

For the six months ended March 31, 2012

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
BALANCE – September 30, 2011	1,871,352	$ 1,900	$30,813,100	(42,236,500)	(11,421,500)
Stock-based compensation	—	—	670,400	—	670,400
Stock issued for warrant exercise	2,823	—	900	—	900
Net loss for the six months ended March 31, 2012	—	—	—	(11,125,700)	(11,125,700)
Balance at March 31, 2012	1,874,175	$ 1,900	$31,484,400	$(53,362,200)	$(21,875,900)

For the six months ended March 31, 2011

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
BALANCE – September 31, 2010	1,867,690	$ 1,900	$29,163,700	$(33,369,900)	$ (4,204,300)
Stock-based compensation	—	—	845,300	—	845,300
Net loss for the six months ended March 31, 2011	—	—	—	(7,043,900)	(7,043,900)
Balance at March 31, 2011	1,867,690	$ 1,900	$30,009,000	$(40,413,800)	$(10,402,900)

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

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 PEER Online, advance physician training in PEER Online and investigate practice development strategies associated with PEER Online.

On March 28, 2012, the Company's Board set a reverse split ratio of 1-for-30 of its common stock. On March 30, 2012, the Company filed an amendment to its Certificate of Incorporation to effect the reverse split and change in authorized shares, which became effective at 5:00 pm PDT on April 2, 2012.

Going Concern Uncertainty

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

The Company's continued operating losses and limited capital raise substantial doubt about its ability to continue as a going concern, and it needs to raise substantial additional funds in order to continue to conduct its business. 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 immediately to continue its operations and will need substantial additional funds before it can increase demand for its PEER Online services (formerly known as rEEG services). Until it can generate a sufficient amount of revenues to finance its cash requirements, which it may never do, the Company expects to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations. The Company's liquidity and capital requirements depend on several factors, including the rate of market acceptance of its services, the future profitability of the Company, the rate of growth of the Company's business and other factors described elsewhere in this Quarterly Report. The Company is currently exploring additional sources of capital but there

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS - (continued)

can be no assurances that any financing arrangement will be available in amounts and on terms acceptable to the Company. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

All share and per share numbers presented have been retroactively adjusted to reflect the 1-for-30 reverse stock split of the common stock on April 2, 2012 and a simultaneous reduction in authorized shares to 100,000,000.

Basis of Consolidation

The unaudited condensed consolidated financial statements of CNS Response, Inc. ("CNS," "we," "us," "our" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and include all the accounts of CNS and its wholly owned subsidiaries CNS California and NTC. Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our financial position as of March 31, 2012 and our operating results, cash flows, and changes in stockholders' equity for the interim periods presented. The September 30, 2011 balance sheet was derived from our audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with our audited consolidated financial statements and notes for the year ended September 30, 2011 which are included in our current report on Form 10-K, filed with the Securities and Exchange Commission on December 22, 2011.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and revenues and expenses in the financial statements. Examples of estimates subject to possible revision based upon the outcome of future events include, among others, recoverability of long-lived assets and goodwill, stock-based compensation, the allowance for doubtful accounts, the valuation of equity instruments, use and other taxes. In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments, except as otherwise indicated) necessary for fair presentation for the periods presented as required by regulation S-X, Rule 10-01. Actual results could differ from those estimates.

The results of operations for the six months ended March 31, 2012 are not necessarily indicative of the results that may be expected for future periods or for the year ending September 30, 2012.

Offering Costs

The Company applies ASC topic 505-10, "Costs of an Equity Transaction", for recognition of offering costs. In accordance with ASC 505-10, the Company treats incremental direct costs incurred to issue shares classified as equity, as a reduction of the proceeds. Direct costs incurred before shares classified as equity are issued, are classified as an asset until the stock is issued. Indirect costs such as management salaries or other general and administrative expenses and deferred costs of an aborted offering are expensed.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Long-Lived Assets and Intangible Assets

Property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of the assets may not be recoverable. If the Company determines that the carrying value of the asset is not recoverable, a permanent impairment charge is recorded for the amount by which the carrying value of the long-lived or intangible asset exceeds its fair value. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives of ten years. No impairments of property and equipment or intangible assets were recorded during the six months ended March 31, 2012 and 2011.

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.”

Effective September 30, 2011 the Company, together with holders of each of a majority in aggregate principal amount outstanding of the October Notes and the 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 intended to be 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 have a second-position security interest in all the assets of the Company, but remain subordinated to the October Notes. The interest rate on all these notes remained unchanged at 9% per annum. Subsequently, upon the issuance of 2011 Bridge Notes in October, 2011, at a conversion price of $3.00 and the associated warrants to purchase common stock at an exercise price of $3.00, 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 $9.00 to $3.00, and the exercise price of the associated warrants was lowered from $9.00 to $3.00 per share, and the number of shares underlying such notes and warrants was proportionately increased. Using the Black Scholes model, we valued the January Notes and the October Notes with their extended maturity dates as of September 30, 2011 and compared that value with the value of these notes 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. As of March 31, 2012 the derivative liability was $12,972,700, which was comprised of the warrant liability of $6,870,800 and the debt conversion option liability of $6,101,900.

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.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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") which 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 $6,870,800 and $2,193,900, as of March 31, 2012, and September 30, 2011, respectively. The Company's conversion option liability is carried at fair value totaling $6,101,900 and $2,607,300 as of March 31, 2012 and September 30, 2011, 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:

	March 31, 2012
Annual dividend yield	—
Expected life (years)	0.50 – 3.5%
Risk-free interest rate	0.19% – 0.51%
Expected volatility	79% – 134%

	Carrying Value As of March 31, 2012	Fair Value Measurements at March 31, 2012 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Warrant liability	$ 6,870,800	$ —	$ 6,870,800	$ —
Senior secured convertible promissory note	3,023,900		3,023,900	
Subordinated convertible promissory note	3,016,700		4,500,000	
Unsecured convertible promissory note	7,500		90,000	
Conversion option liability	6,101,900	—	6,101,900	—
Total	$ 19,028,800	$ —	$ 20,586,600	$ —

For the six months ending March 31, 2012 the Company recognized a loss of $(5,501,700) on the change in fair value of derivative liabilities. For the six months ending March 31, 2011 the Company recognized a gain of $254,200 on change in fair value of derivative liabilities. As at March 31, 2012 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.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update ("ASU") No. 2011-05, in order to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 not affected by this ASU are effective for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of the standard update to impact its consolidated financial position or results of operations, as it only requires a change in the format of presentation.

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 position or results of operations.

In June 2011, FASB issued ASU 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 update is effective for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of the standard update to impact its consolidated financial position or results of operations, as it only requires a change in the format of presentation.

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS

2010, 2011 & 2012 Private Placement Transactions

During 2010, 2011 and 2012 we entered into a series of 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") to be issued by January 31, 2011, including for the exchange of Bridge Notes and Deerwood Notes (as defined below) and interest on those notes. October Notes in the aggregate principal amount of $3,023,938 and warrants to purchase 503,998 (ratchet and reverse split adjusted) shares of common stock were issued by November 12, 2010.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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") to be issued 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 416,674 (ratchet and reverse split adjusted) shares of common stock.

On September 30, 2011 the Company's Board approved an approximate aggregate offering amount of $2 million in subordinated convertible promissory notes (the "2011 Bridge Notes") to be issued by April 1, 2012. From October 18, 2011 through January 31, 2012, the Company issued 2011 Bridge Notes in an aggregate principal amount of $2,000,000 and warrants to purchase 666,673 shares of common stock.

On February 29, 2012, we raised $90 thousand through the sale of a subordinated unsecured convertible bridge note (the "Unsecured Note") and a warrant to purchase 30,000 shares of common stock at an exercise price of $3.00 per share. The terms of the February Note and warrant are substantially similar to the 2011 Bridge Notes and warrants except that the February Note is not secured.

The securities issued under the 2010, 2011 and 2012 Note and Warrant Purchase Agreements are summarized in the following table and notes:

Note Type and Investor		Amended Due Date	As of March 31, 2012 Balance ($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
Senior Secured 9% Notes Convertible at $3.00 (the "October Notes")[14][16]							
John Pappajohn	(1)	10/1/2012	$ 761,700	$ —	$ 761,700	126,949	9/30/2017
Deerwood Partners, LLC	(2)	10/1/2012	256,100	—	256,100	25,614	11/2/2017
Deerwood Holdings, LLC	(2)	10/1/2012	256,100	—	256,100	25,614	11/2/2017
SAIL Venture Partners, LP	(2)		—	—	—	34,152	11/2/2017
SAIL Venture Partners, LP	(3)	10/1/2012	250,000	—	250,000	41,667	9/30/2017
Fatos Mucha	(10)	10/1/2012	100,000	—	100,000	16,667	10/11/2017
Andy Sassine	(4)	10/1/2012	500,000	—	500,000	83,334	10/10/2017
JD Advisors	(10)	10/1/2012	150,000	—	150,000	25,000	10/20/2017
Queen Street Partners	(10)	10/1/2012	100,000	—	100,000	16,667	10/27/2017
BGN Acquisitions	(2)	10/1/2012	250,000	—	250,000	41,667	11/2/2017
Highland Long/Short Fund Healthcare Fund	(5)	10/1/2012	400,000	—	400,000	66,667	11/9/2017
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	3,334	10/11/2015
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	13,334	11/11/2015
Total Senior Secured Convertible Promissory (October) Notes		10/1/2012	$3,023,900	$ —	$3,023,900	520,666	2015 - 2017
Subordinated Secured 9% Notes Convertible at $3.00 (the "January Notes")[15][16]							

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

Note Type and Investor		Amended Due Date	As of March 31, 2012 Balance ($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
Meyer Proler MD	(7)	10/1/2012	$ 50,000	$ 0	$ 50,000	8,334	1/19/2018
William F. Grieco	(10)	10/1/2012	100,000	0	100,000	16,667	2/2/2018
Edward L. Scanlon	(10)	10/1/2012	200,000	0	200,000	33,334	2/6/2018
Robert Frommer Family Trust	(8)	10/1/2012	50,000	0	50,000	8,334	2/14/2018
Paul Buck	(9)	10/1/2012	50,000	0	50,000	8,334	2/14/2018
Andy Sassine	(4)	10/1/2012	200,000	0	200,000	33,334	2/22/2018
SAIL Venture Partners, LP	(3)	10/1/2012	187,500	0	187,500	31,250	2/26/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	62,500	0	62,500	10,417	2/26/2018
Highland Long/Short Healthcare Fund	(5)	10/1/2012	400,000	0	400,000	66,667	2/26/2018
Monarch Capital: Placement Agent Warrants	(6)	10/1/2012	—	—	—	18,334	2/27/2016
Rajiv Kaul	(10)	10/1/2012	100,000	0	100,000	16,667	3/2/2018
Meyer Proler MD	(7)	10/1/2012	50,000	(2,000)	48,000	8,334	04/04/2018
SAIL Venture Partners, LP	(3)	10/1/2012	250,000	(20,800)	229,200	41,667	04/14/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	250,000	(10,400)	239,600	41,667	04/14/2018
John M Pulos	(10)	10/1/2012	150,000	(6,300)	143,700	25,000	04/21/2018
SAIL Venture Partners, LP	(3)	10/1/2012	125,000	(10,400)	114,600	20,834	04/24/2018
SAIL 2010 Co-Investment Partners, LP	(3)	10/1/2012	125,000	(10,400)	114,600	20,834	04/24/2018
Cummings Bay Capital LP	(5)	10/1/2012	150,000	(6,300)	143,700	25,000	04/24/2018
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	6,667	04/24/2016
Antaeus Capital: Placement Agent Warrants	(11)		—	—	—	5,000	04/21/2016
Total Subordinated Secured Convertible Promissory (January) Notes		10/1/2012	$2,500,000	$(66,600)	$2,433,400	446,675	2016 – 2018
Subordinated Secured 9% Notes Convertible at $3.00 (the "2011 Bridge Notes")[17]							

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

Note Type and Investor		Due Date	As of March 31, 2012 Balance ($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
John Pappajohn	(1)	10/17/2012	250,000	(135,400)	114,600	83,334	10/17/2016
Jordan Family, LLC	(10)	10/30/2012	20,000	(11,700)	8,300	6,667	10/30/2016
Larry Hopfenspirger	(10)	11/09/2012	60,000	(37,500)	22,500	20,000	11/9/2016
John Pappajohn	(1)	11/09/2012	250,000	(156,300)	93,700	83,334	11/9/2016
Zanett Opportunity Fund, Ltd	(12)	11/16/2012	250,000	(156,300)	93,700	83,334	11/16/2016
John Pappajohn	(1)	12/26/2012	250,000	(187,500)	62,500	83,334	12/26/2016
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	2,667	12/15/2016
Edward L. Scanlon	(10)	01/08/2013	100,000	(75,000)	25,000	33,334	01/08/2017
John Pagnucco	(10)	01/12/2013	50,000	(39,600)	10,400	16,667	01/12/2017
Larry Hopfenspirger	(10)	01/24/2013	30,000	(23,800)	6,200	10,000	01/24/2017
Gene Salkind, MD	(10)	01/25/2013	50,000	(39,600)	10,400	16,667	01/25/2017
AlphaNorth Offshore, Inc	(13)	01/25/2013	500,000	(395,800)	104,200	166,667	01/25/2017
Aubrey W. Baillie	(10)	01/26/2013	100,000	(83,300)	16,700	33,334	01/26/2017
Zanett Opportunity Fund, Ltd	(12)	01/26/2013	40,000	(33,300)	6,700	13,334	01/26/2017
BMO Nesbitt Burns	(10)	01/29/2013	50,000	(41,600)	8,400	16,667	01/29/2017
Monarch Capital: Placement Agent Warrants	(6)		—	—	—	2,667	02/12/2017
Innerkip Placement Agent Warrants	(19)		—	—	—	15,167	02/12/2017
Total Subordinated Secured Convertible Promissory (“2011 Bridge”) Notes		10 – 2012 to 01 – 2013	$2,000,000	$(1,416,700)	$ 583,300	687,174	
Total Subordinated Secured Convertible Promissory Notes			$4,500,000	$(1,483,300)	$3,016,700	1,133,849	
Unsecured 9% Notes Convertible at $3.00 (the “Unsecured Note”)(18)							
Zanett Opportunity Fund, Ltd	(12)	02/28/2013	90,000	(82,500)	7,500	30,000	02/28/2017
Total Unsecured Convertible Promissory Notes			$ 90,000	$ (82,500)	$ 7,500	30,000	
Total			$7,613,900	$(1,565,800)	$6,048,100	1,684,515	

(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 8,334 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 $15.00 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 $15.00. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $9.00. Each Bridge Note accrued interest at a rate of 9% per annum.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 126,949 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 41,667 shares. We also issued October Notes in the aggregate principal amount of $511,700, and related warrants to purchase up to 85,282 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 8,334 shares originally issued to him on July 25, 2010. The transaction closed on October 1, 2010.

On October 18, 2011, 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. 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 83,334 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.

On each of November 10, 2011 and December 27, 2011, the Company issued a 2011 Bridge Note in the aggregate principal amount of $250,000 and warrants to purchase 83,334 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $250,000. The combined aggregate amount for these two 2011 Bridge Financings was $500,000 and warrants to purchase 166,668 shares of common stock for gross proceeds to the Company of $500,000.

(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 2,500 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 $16.80 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. At the time of issuance, our director David Jones was a managing member of SAIL Venture Partners, LLC, and he remains a limited partner of SAIL. 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 3,334 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 $16.80 per share.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 $15.00. The conversion price was subject to customary anti-dilution adjustments, but would never be less than $9.00.

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 92,895 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 41,667 shares. (b) We also issued October Notes in the aggregate principal amount of $512,200, and related warrants to purchase up to 51,228 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 5,000 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 34,152 shares of common stock. The warrants to purchase 3,334 shares of common stock previously granted to SAIL on August 20, 2010 were canceled.

(3) Mr. Dave Jones is the Chairman of the Board of the Company and is a former managing member of the general partner of SAIL, of which SAIL 2010 Co-Investment Partners, L.P. is an affiliate. Mr. Jones remains a limited partner of SAIL.

(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 is affiliated with Cummings Bay Capital LP. Both individually and in the aggregate with Cummings Bay Capital LP, Highland Long/Short Healthcare Fund has become the beneficial owner of more than 5% of our outstanding common stock.

(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 closings of October 12, 2010 and November 11, 2010 Monarch received a cash fee of $60,000 and a cash expense allowance of $10,000 and, on October 25, 2010, received 2010 Placement Agent Warrants to purchase 16,668 shares of the Company’s common stock at an exercise price of $3.00 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 18,334 shares of the Company’s common stock at an exercise price of $3.00 per share. The 2011 Placement Agent Warrants have an exercise price equal to 110% of the conversion price of the January

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 above mentioned 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 6,667 shares of the Company's common stock at an exercise price of $3.00 per share.

Monarch has also acted as non-exclusive placement agent with respect to the placement of 2011 Bridge Notes in the aggregate principal amount of $160,000 and related warrants, pursuant to an engagement agreement, dated October 20, 2011 which has the same terms as the September 30, 2010 agreement between the Company and Monarch except that placement agent warrants have the same exercise price and term as the investor warrants. In connection with acting as nonexclusive placement agent with respect to 2011 Bridge Notes dated December 16, 2011 and January 30, 2012 in the aggregate principal amount of $160,000 and related warrants, Monarch received aggregate cash fees of $160,000 and an aggregate cash expense allowance of $3,200 and five-year warrants to purchase an aggregate of up to 5,334 shares of the Company's common stock at an exercise price of $3.00 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 5,000 shares of the Company's common stock at an exercise price of $3.00 per share.

(12) 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 83,334 shares of common stock for cash payments aggregating $250,000. Mr. McAdoo is the president and owner of McAdoo Capital, Inc. On November 21, 2011, the Board of Directors elected Zachary McAdoo to the Board. Mr. McAdoo also serves as Chairman of the Board's Audit Committee.

On January 27, 2012 we issued Zanett an additional 2011 Bridge Note in the aggregate amount of $40,000 and a warrant to purchase 13,334 shares of common stock for gross proceeds to the company of $40,000.

On February 29, 2012 we issued Zanett a subordinated unsecured promissory note ("Unsecured Note") in the aggregate principal amount of $90,000 and a warrant to purchase 30,000 shares of common stock for gross proceeds to the Company of $90,000. The terms of the Unsecured Notes and related warrants are substantially similar to the terms of the 2011 Bridge Notes and related warrants, except that the Unsecured Notes are not secured by our assets.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

(13)On January 25, 2012, AlphaNorth Offshore, Inc. purchased a 2011 Bridge Note in the aggregate principal amount of $500,000 and warrants to purchase 166,667 shares of common stock for cash payments aggregating $500,000. Mr. Steven Palmer is the President and CEO of AlphaNorth Asset Management and is the portfolio manager of AlphaNorth Offshore, Inc. Innerkip Capital Management (see below) received a finder’s fee and warrants in association with this transaction.

(14)The October Notes: 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 $9.00. 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 $9.00. 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.

The October Notes were subsequently amended as detailed in (16) below.

(15)The January Notes: The 2011Note 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 subordinated in all respects to the Company’s obligations under the October Notes and the related guaranties issued to certain investors by SAIL and (ii) the Company is not subject to a

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

restrictive covenant to the use of proceeds from the sale of the January Notes only for current operations. Initially, the January Notes were not secured by any of the Company's assets. The terms of the new warrants are identical to the terms of the warrants issued in connection with the October Notes.

The January Notes were subsequently amended as detailed in (16) below.

(16) Amendment of the October Notes and the 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. Pursuant to the terms of the amendment, which was 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. The amendment was also intended to add 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 were less than the conversion price then in effect, the conversion price would be adjusted to match the public offering price (the "Qualified Offering Price").

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 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 were extended accordingly. The amendment, which was effective as of September 30, 2011, was also intended to add 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.

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") would be adjusted to match the Qualified Offering Price, if such price were 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.

As a result of the issuance of 2011 Bridge Notes (mentioned below) at a conversion price of $3.00 and the associated warrants to purchase common stock at an exercise price of $3.00, 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 $9.00 to $3.00, the exercise price of the associated warrants was lowered from $9.00 to $3.00 per share, and the number of shares underlying such notes and warrants was proportionately increased.

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 below), 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.

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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.

(17)The 2011 Bridge Notes: 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 $3.00, 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.

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 $3.00. 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

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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.

(18) The Unsecured Bridge Note: the terms of this note are identical to the 2011 Bridge Note described above, except that this note is not secured. There was only one note of this type issued to the Zanett Opportunity Fund as described in (12) above

(19) Innerkip Capital Management, Inc. ("Innerkip"), a Toronto-based exempt market dealer registered with the Ontario Securities Commission (OSC), acted as non-exclusive placement agent with respect to the placement of 2011 Bridge Notes issued during January 2012, in the aggregate principal amount of $650,000 and related warrants, pursuant to a Finder's Agreement which was formalized and dated February 13, 2012, between the Company and Innerkip. Under the Finder's Agreement, in return for its services as non-exclusive placement agent, Innerkip is entitled to receive (a) a cash fee equal to 7% of the gross proceeds raised from the sale of 2011 Bridge Notes to investors, originated in Canada, introduced to the Company by Innerkip and (b) five-year warrants, which are identical to the investor warrants associated with the 2011 Bridge Financing, to purchase common stock of the Company equal to 7% of the shares issuable upon conversion of 2011 Bridge Notes issued to such investors. In connection with the January 2012 closings, Innerkip received a cash fee of $45,500 and was issued warrants to purchase 15,167 shares of the Company's common stock at an exercise price of $3.00 per share.

As of March 31, 2012 outstanding senior secured convertible promissory notes (October Notes) were $3,023,900 (including $23,900 corresponding to accrued and unpaid interest on the exchanged notes) and debt discount was $0. During the six months ended March 31, 2012 the Company amortized $155,700 of the debt discount.

As of March 31, 2012 outstanding subordinated secured convertible promissory notes (January Notes) were $2,500,000 and debt discount was $66,600. During the six months ended March 31, 2012 the Company amortized $1,038,600 of the debt discount.

As of March 31, 2012 outstanding subordinated secured convertible promissory notes (2011 Bridge Notes) were $2,000,000 and debt discount was $1,416,700. During the six months ended March 31, 2012 the Company amortized $583,300 of the debt discount.

As of March 31, 2012 outstanding subordinated unsecured convertible promissory notes (Unsecured Bridge Note) were $90,000 and debt discount was $82,500. During the six months ended March 31, 2012 the Company amortized $7,500 of the debt discount.

The combined outstanding senior secured, subordinated secured and subordinated unsecured convertible promissory notes as of March 31, 2012 were $7,613,900 and debt discounts were $1,565,900. During the six months ended March 31, 2012 the Company amortized $1,785,100 of the debt discount.

In connection with our now withdrawn application to list our securities on the TSXV and the contemplated public offering of securities in Canada and the United States, we entered into agreements on June 3, 2011 with 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. They have all 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

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. CONVERTIBLE DEBT AND EQUITY FINANCINGS - (continued)

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 11,667 shares of our common stock to such holders (after adjustment for the anti-dilution ratchet), 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.

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.

4. STOCKHOLDERS' DEFICIENCY

Common and Preferred Stock

As of March 31, 2012 the Company is authorized to issue 100,000,000 shares of common stock at par value of $0.001 per share and the number of shares issued and outstanding was 1,874,175.

As of March 31, 2012, 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 March 31, 2012, Colorado CNS Response, Inc. is authorized to issue 1,000,000 no par value shares of common stock.

As of March 31, 2012, 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 3,123 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 $14.10 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 333,334 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 100,000 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.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. STOCKHOLDERS' DEFICIENCY - (continued)

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 333,334 to 666,667 shares of stock. The amendment also increased the limit on shares issued within a calendar year to any eligible employee or director from 100,000 to 133,333 shares of stock. The amendment was approved by shareholders at the annual meeting held on April 27, 2010.

On March 11, 2011, the Board of Directors also approved an additional grant of 15,834 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 $14.10 per share was based on the quoted closing share price of the Company's stock on March 11, 2011.

On March 22, 2012, our Board of Directors approved the CNS Response, Inc. 2012 Omnibus Incentive Compensation Plan (the "2012 Plan"), and approved the grant of options to purchase 42,670 shares of common stock pursuant to such plan at an exercise price of $3.00 per share, including options to purchase 8,334 shares to each of our directors Zachary McAdoo and Maurice DeWald. The 2012 Plan will be submitted for approval to our stockholders at our 2012 Annual Meeting of Stockholders. Absent stockholder approval, the options will be cancelled and the 2012 Plan will not become effective.

As of March 31, 2012, 70,825 options were exercised and there were 566,532 options and 6,132 restricted shares outstanding under the amended 2006 Plan.

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 three months ended March 31, 2012 and 2011 is as follows:

	For the three months ended March 31,	
	2012	2011
Cost of Neurometric Services revenues	$ 2,600	$ 2,600
Research	23,900	69,200
Product Development	17,700	16,900
Sales and marketing	49,100	44,400
General and administrative	241,600	278,000
Total	$ 334,900	$ 411,100

	For the six months ended March 31,	
	2012	2011
Cost of Neurometric Services revenues	$ 5,100	$ 5,100
Research	51,200	141,500
Product Development	34,600	33,900
Sales and marketing	97,900	111,300
General and administrative	481,600	553,500
Total	$ 670,400	$ 845,300

Total unrecognized compensation as of March 31, 2012 amounted to $2,340,100.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. STOCKHOLDERS' DEFICIENCY - (continued)

A summary of stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 30, 2011	524,201	$ 18.60
Granted	—	—
Exercised	—	—
Forfeited	(339)	14.10
Outstanding at December 31, 2011	523,862	$ 18.49
Granted	42,670	3.00
Exercised	—	—
Forfeited	—	—
Outstanding at March 31, 2012	566,532	$ 17.32

Following is a summary of the status of options outstanding at March 31, 2012:

Exercise Price	Number of Shares	Weighted Average Contractual Life	Weighted Average Exercise Price
$ 3.00	42,670	10 years	$ 3.00
$ 3.60	28,648	10 years	$ 3.60
$ 3.96	32,928	10 years	$ 3.96
$ 9.00	4,525	10 years	$ 9.00
$ 12.00	28,535	10 years	$ 12.00
$ 14.10	15,495	10 years	$ 14.10
$ 15.30	1,373	10 years	$ 15.30
$ 16.50	270,775	10 years	$ 16.50
$ 17.70	953	10 years	$ 17.70
$ 24.00	4,667	10 years	$ 24.00
$ 26.70	32,297	10 years	$ 26.70
$ 28.80	11,767	10 years	$ 28.80
$ 32.70	83,790	10 years	$ 32.70
$ 36.00	8,109	5 years	$ 36.00
Total	566,532		$ 17.32

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 439,689 shares of our common stock, at exercise prices ranging from $3.60 per share to $32.70 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 the 2012 plan, subject to approval by our stockholders, which we expect to seek at a meeting of stockholders.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. STOCKHOLDERS' DEFICIENCY - (continued)

Warrants to Purchase Common Stock

The warrant activity for the six months ending March 31, 2012 and year ending September 30, 2011 respectively are described as follows:

Warrants	Exercise Price	Issued, Surrendered or Expired in Connection With:
716,810		**Warrants outstanding at October 1, 2010**
111,100	$9.00	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.
5,558	$9.90	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.
		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:
138,897	$ 9.00	1) A January Note in the principal amount of $50,000, and a warrant to purchase 2,778 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 31,251 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 24,307 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 5,556 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 22,223 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 8,334 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 11,112 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 2,778 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 30,558 shares.
10,002	$9.90	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.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. STOCKHOLDERS' DEFICIENCY - (continued)

Warrants	Exercise Price	Issued, Surrendered or Expired in Connection With:
(1,412)	$0.30	Warrants expired
(565)	$0.30	Warrants were surrendered in a net issue exercise: 539 shares were issued in lieu of cash.
980,390		**Warrants outstanding at September 30, 2011**
613,782	$3.00	As a result of the issuance of 2011 Bridge Notes at a conversion of $3.00 and associated warrants to purchase common stock at an exercise price of $3.00, the ratchet provision in the October and January Notes was triggered with the resultant adjustment in the number of shares convertible at the lowered conversion price of $3.00 down from $9.00 and the consequential adjustment in the number of warrants issued to the October and January Note Holders.
31,112	$3.00	As mentioned above the ratchet provision in the issued placement agent warrants was also triggered with the resultant adjustment in the number of warrants being issued to the placement agents.
(2,823)	$0.30	Warrants were surrendered in a cash exercise for 2,823 shares.
360,003	$ 3.00	These warrants were issued to 4 investors who purchased notes for $1,080,000 pursuant to the 2011 Bridge Purchase Agreement described in note 3. Of the 4 accredited investors during the October 2011 through December 2011 period, three have had prior relationships with the Company as follows:
		1) Three 2011 Bridge Notes in aggregate principal amount of $750,000, and warrants to purchase 250,002 shares were issued to John Pappajohn, a director of the Company.
		2) Two 2011 Bridge Notes in aggregate amount of $80,000 were issued to accredited investors, who had previously invested in the Company, together with warrants to purchase 26,667 shares.
		3) A 2011 Bridge Note in the principal amount of $250,000, and a warrant to purchase 83,334 shares were issued to the Zanett Opportunity Fund, an entity affiliated with Zachary McAdoo, who was subsequently appointed a director of the Company.
2,667	$3.00	These warrants were issued to Monarch Capital who acted as placement agents in raising $80,000 from two investors who purchased 2011 Bridge Notes pursuant to the 2011 Bridge Note January Purchase Agreement described in Note 3.
(87,574)	$0.30 to $54.36	Warrants expired
1,897,557		**Warrants outstanding at December 31, 2011**
336,670	$ 3.00	These warrants were issued to 8 investors who purchased notes for $920,000 pursuant to the 2011 Bridge Purchase Agreement described in note 3 and a $90,000 unsecured bridge note. Of the 8 accredited investors during the January 2012 through March 2012 period, four have had prior relationships with the Company as follows:
		1) Three 2011 Bridge Notes in aggregate amount of $180,000 were issued to accredited investors, who had previously invested in the Company, together with warrants to purchase 60,001 shares.
		2) A 2011 Bridge Note in the principal amount of $40,000, and a warrant to purchase 13,334 shares were issued to the Zanett Opportunity Fund, an entity affiliated with Zachary McAdoo, who is a director of the Company.
		3) A unsecured Bridge Note in the principal amount of $90,000, and a warrant to purchase 30,000 shares were issued to the Zanett Opportunity Fund, an entity affiliated with Zachary McAdoo, who is a director of the Company.
		4) Four 2011 Bridge Notes in aggregate amount of $700,000 and a warrant to purchase 233,335 shares were issued to four new investors to the company.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. STOCKHOLDERS' DEFICIENCY - (continued)

Warrants	Exercise Price	Issued, Surrendered or Expired in Connection With:
2,667	$ 3.00	These warrants were issued to Monarch Capital who acted as placement agents in raising $80,000 from two investors who purchased 2011 Bridge Notes pursuant to the Bridge Note January Purchase Agreement described in Note 3.
15,167	$ 3.00	These warrants were issued to Innerkip Capital Management who acted as placement agents in raising $650,000 from three investors who purchased 2011 Bridge Notes pursuant to the 2011 Bridge Note January Purchase Agreement described in Note 3.
(57,791)	$ 1.80	Warrants expired
2,194,270		**Warrants outstanding at March 31, 2012**

At March 31, 2012, there were warrants outstanding to purchase 2,194,270 shares of the Company's common stock. The exercise price of the outstanding warrants range from $3.00 to $54.00 with a weighted average exercise price of $4.94. The warrants expire at various times starting 2012 through 2018.

5. RELATED PARTY TRANSACTIONS

As at March 31, 2011, 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 and automatically renewed for a third 12 month term effective January 1, 2012. For the six-month period ended March, 2011 two payments totaling $18,000 were made to Dr. Harbin in connection with the consulting agreement. As at March 31, 2012 we had accrued $63,000 for Dr. Harbin.

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, 2011 & 2012 Private Placement 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, 2011 & 2012 Private Placement 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 March 31, 2011 the Company had accrued $260,000 for the services provided by Equity Dynamics of which $155,000 has been paid, leaving $105,000 due and outstanding as at March 31, 2012. The initial 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 March 22, 2012, the Board ratified the extension of the engagement agreement through January 2012.

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 2,778 shares. Also on this date the Company pursuant to the January

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. RELATED PARTY TRANSACTIONS - (continued)

Purchase Agreement, issued an Unsecured Note in the aggregate principal amount of $50,000 and a warrant to purchase 2,778 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 11,112 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 10,417 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 3,473 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 22,223 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 13,889 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 13,889 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 6,945 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 6,945 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 8,334 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 subordinated unsecured convertible notes (the "January Notes") amended all of the January Notes to extend the maturity of such notes until October 1, 2012.

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. These amendments are further described in Note 3 — *Convertible Debt and Equity Financings — 2010, 2011 & 2012 Private Placement Transactions.*

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

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. RELATED PARTY TRANSACTIONS - (continued)

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.

On October 18, 2011, CNS Response, Inc. issued 2011 Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 41,667 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $250,000. On November 11, 2011 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 83,334 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 83,334 shares of common stock for gross proceeds to the Company of $250,000 as part of the 2011 Bridge Financing. Again on December 27, 2011, the Company issued Mr. Pappajohn additional 2011 Bridge Notes in the aggregate principal amount of $250,000 and warrants to purchase 83,334 shares of common stock for gross proceeds to the Company of $250,000 as part of the 2011 Bridge Financing. As of December 27, 2011, the Company has therefore issued 2011 Bridge Notes in the aggregate principal amount of $750,000 and warrants to purchase 250,002 shares of common stock to Mr. Pappajohn for gross proceeds to the Company of $750,000.

On November 17, 2011, Zanett Opportunity Fund, Ltd., ("Zanett"), 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 83,334 shares of common stock for cash payments aggregating $250,000. Mr. McAdoo is the president and owner of McAdoo Capital, Inc. On November 21, 2011, the Board of Directors elected Zachary McAdoo to the Board. Mr. McAdoo also serves as Chairman of the Board's Audit Committee.

On January 29, 2012, Zanett purchased a 2011 Bridge Note in the aggregate principal amount of $40,000 and warrants to purchase 13,334 shares of common stock for a cash payment aggregating $40,000. Additionally on February 29, 2012, the Zanett purchased an Unsecured Bridge Note in the aggregate principal amount of $90,000 and warrants to purchase 30,000 shares of common stock for a cash payment aggregating $90,000.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. RELATED PARTY TRANSACTIONS - (continued)

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 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 2011 Bridge Financing (the "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.

The terms of the October Notes, January Notes, 2011 Bridge Notes and Unsecured Note and all related warrants, as well as details of the transactions in which they were issued, are described above in the section *2010, 2011 & 2012 Private Placement Transactions* in Note 3.

6. REPORTABLE SEGMENTS

The Company operates in two business segments: referenced neurometric information services and clinical services. Neurometric Information Services, provides data, in the form of a PEER Report, 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. Clinic operates NTC, a full service psychiatric practice.

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

	Three months ended March 31, 2012			
	Reference Neurometric	Clinic	Eliminations	Total
Revenues	37,200	188,900	(12,000)	214,100
Operating expenses:				
Cost of revenues	35,900	12,000	(12,000)	35,900
Research	67,400	—	—	67,400
Product Development	162,800	—	—	162,800
Sales and marketing	304,200	10,800	—	315,000
General and administrative	788,800	262,200	—	1,051,000
Total operating expenses	1,359,100	285,000	(12,000)	1,632,100
Loss from operations	$ (1,321,900)	$ (96,100)	$ —	$ (1,418,000)

	Three months ended March 31, 2011			
	Reference Neurometric	Clinic	Eliminations	Total
Revenues	38,400	162,600	(9,200)	191,800
Operating expenses:				
Cost of revenues	36,500	9,200	(9,200)	36,500
Research	119,300	—	—	119,300
Product Development	116,400	—	—	116,400
Sales and marketing	321,400	26,100	—	347,500
General and administrative	764,500	314,700	—	1,079,200
Total operating expenses	1,358,100	350,000	(9,200)	1,698,900
Loss from operations	$ (1,319,700)	$ (187,400)	$ —	$ (1,507,100)

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. REPORTABLE SEGMENTS - (continued)

	Six months ended March 31, 2012			
	Reference Neurometric	Clinic	Eliminations	Total
Revenues	75,200	341,200	(18,000)	398,400
Operating expenses:				
Cost of revenues	75,100	18,000	(18,000)	75,100
Research	137,100	—	—	137,100
Product Development	275,300	—	—	275,300
Sales and marketing	590,400	54,700	—	645,100
General and administrative	1,597,200	514,800	—	2,112,000
Total operating expenses	2,675,100	587,500	(18,000)	3,244,600
Loss from operations	$ (2,599,900)	$ (246,300)	$ —	$ (2,846,200)

	Six months ended March 31, 2011			
	Reference Neurometric	Clinic	Eliminations	Total
Revenues	72,800	283,200	(16,400)	339,600
Operating expenses:				
Cost of revenues	72,500	16,400	(16,400)	72,500
Research	330,300	—	—	330,300
Product Development	260,800	—	—	260,800
Sales and marketing	565,100	29,200	—	594,300
General and administrative	1,597,500	535,600	—	2,133,100
Total operating expenses	2,826,200	581,200	(16,400)	3,391,000
Loss from operations	$ (2,753,400)	$ (298,000)	$ —	$ (3,051,400)

The following table includes selected segment financial information as of March 31, 2012, related to total assets:

	Reference Neurometric	Clinic	Total
Total assets	$ 645,400	$ 59,500	$ 704,900

7. LOSS PER SHARE

In accordance with ASC 260-10 (formerly SFAS 128, “Computation of Earnings Per Share”), basic net income (loss) per share is computed by dividing the net income (loss) to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. For the three months and six months ended March 31, 2012 and 2011, the Company has excluded all common equivalent shares from the calculation of diluted net loss per share as such securities are anti-dilutive.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. LOSS PER SHARE - (continued)

A summary of the net income (loss) and shares used to compute net income (loss) per share for the three months ended March 31, 2012 and 2011 are as follows:

	For the Three Months ended March 31,	
	2012	2011
Net loss for computation of basic net loss per share	$(8,394,500)	$(6,946,300)
Net loss for computation of dilutive net income loss per share	$(8,394,500)	$(6,946,300)
Basic net loss per share	$ (4.48)	$ (3.72)
Diluted net income loss per share	$ (4.48)	$ (3.72)
Basic weighted average shares outstanding	1,873,948	1,867,464
Dilutive common equivalent shares	—	—
Diluted weighted average common shares	1,873,948	1,867,464
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	2,051,886	402,759
Warrants	1,905,251	871,384
Options	527,958	511,743

A summary of the net loss and shares used to compute the loss per share for the six months ended March 31, 2012 and 2011 are as follows:

	For the Six Months ended March 31,	
	2012	2011
Net loss for computation of basic net loss per share	$(11,125,700)	$(7,043,900)
Net loss for computation of dilutive net income loss per share	$ (11,125,700)	$(7,043,900)
Basic net loss per share	$ (5.94)	$ (3.77)
Diluted net loss per share	$ (5.94)	$ (3.77)
Basic weighted average shares outstanding	1,873,766	1,867,690
Dilutive common equivalent shares	—	—
Diluted weighted average common shares	1,873,766	1,867,690
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	1,909,742	347,499
Warrants	1,781,556	841,070
Options	525,894	515,065

8. 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

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. COMMITMENTS AND CONTINGENT LIABILITIES - (continued)

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, 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, SAIL Venture Partner, LP, and Mr. David Jones, 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. On March 12, 2012, the court sustained demurrers to certain of the counts against each defendant. On March 22, 2012, Mr. Brandt filed a second amended complaint that modifies certain of his claims, but does not add new claims. The Company believes the second amended complaint, like the prior complaints, is devoid of any merit. The Company is aggressively defending the action. 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.

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.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. COMMITMENTS AND CONTINGENT LIABILITIES - (continued)

Lease Commitments

On December 30, 2009 the Company entered a three year lease, commencing February 1, 2010 and terminating on January 31, 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 $41,500: being $24,900 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 $71,800: being $33,000 and $38,800 for fiscal years 2012 and 2013 respectively.

The Company incurred rent expense of $27,500 and $27,000 for the three months ended March 31, 2012 and 2011 respectively and $54,900 and $54,000 for the six months ended March 31, 2012 and 2011 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 March 31, 2012 the remaining lease obligation is $12,400: being $2,600, $4,900 and $4,900 for fiscal years 2012, 2013 and 2014 respectively.

9. SUBSEQUENT EVENTS

Events subsequent to March 31, 2012 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 March 31, 2012.

On April 2, 2012, the Company announced that on March 30, 2012 it filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation (the “Amendment”) to (i) effect a 1-for-30 reverse stock split (“reverse split”) of its common stock, par value $0.001 per share (the “Common Stock”), effective at 5:00 p.m. Pacific Time on April 2, 2012 (the “Effective Time”), and (ii) simultaneously therewith reduce the number of authorized shares of Common Stock available for issuance under the Company’s Amended and Restated Certificate of Incorporation, as amended (the “Certificate of Incorporation”), from 750 million to 100 million. Because the Amendment does not reduce the number of authorized shares of Common Stock in the same proportion as the reverse split, the effect of the Amendment is to increase the number of shares of Common Stock available for issuance relative to the number of shares issued and outstanding.

At the Effective Time, immediately and without further action by the Company’s stockholders, every 30 shares of the Company’s Common Stock issued and outstanding immediately prior to the Effective Time were automatically combined into one share of Common Stock. In the event the reverse split left a stockholder with a fraction of a share, the number of shares due to that stockholder was rounded up. Further, any options, warrants and rights outstanding as of the Effective Time that are subject to adjustment were adjusted in accordance with the terms thereof. These adjustments may include, without limitation, changes to the number of shares of Common Stock that may be obtained upon exercise or conversion of these securities, and changes to the applicable exercise or purchase price. As a result of the reverse split, a “D” was placed on the Common Stock’s ticker symbol for 20 business days.

On April 26, 2012, we received a short-term, interest free loan of $100,000 from John Pappajohn, a director of the Company, for the purpose of funding offering costs and other sundry operating expenses. The loan is evidenced by a demand note and repayment of that note will be when the closing of the registered offering is consummated.

CNS RESPONSE, INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9. SUBSEQUENT EVENTS - (continued)

On May 7, 2012, the Board approved the terms of the 2012 Conversion Agreements. Under these agreements, all holders of October Notes, January Notes, 2011 Bridge Notes and/or Unsecured Note as described in Note 3 would agree to automatically convert their notes to equity upon a qualified offering with gross proceeds of at least $5 million, at which time they would be issued an additional consideration warrant for every two shares they are issued upon the conversion to equity of their note (including accrued plus the and unpaid interest thereon). The form of the warrant will be the same as the warrants that would be offered to the investors in the qualified offering. Furthermore, the October and January note holders would also receive an additional 50% warrant coverage on the principal amount of (but not accrued and unpaid interest on) their note. The form of these warrants will be similar to their original warrants as amended. The 2011 Conversion Agreement also provides for the amendment of the warrants issued to the note holders whereby the ratchet provision of the warrants would be amended to provide for a one-time ratchet adjustment of the exercise price to the per-share offering price in the qualified offering in the event that the exercise price is greater than the offering price in the qualified offering. If and when executed by the holders, the 2012 Conversion Agreement would supersede the Amendment and Conversion Agreements of September 2011 and the Agreements to convert and Amend of June 2011, which both anticipated that the October and January notes would automatically convert to equity upon the raising of $10 million in a qualified offering.

TABLE OF CONTENTS

CNS Response, Inc.
Glossary of Terms

Term	Definition
cloud-based:	The use of multiple server computers via a digital network, as though they were one computer.
electrophysiology:	The branch of medical science concerned with the electrical activity associated with bodily process.
neurometrics:	The science of measuring the underlying organization of the brain's electrical activity. Certain brainwave frequencies are associated with general psychological processes. EEGs are used to measure the brain waves.
neurophysiology:	The study of nervous system function. Primarily, it is connected with neurobiology, psychology, neurology, clinical neurophysiology, electrophysiology, biophysical neurophysiology, ethology, neuroanatomy, cognitive science and other brain sciences.
outcome data:	Information collected to evaluate the capacity of a client to function at a level described in the outcome statement of a nursing care plan or in standards for patient care.
pathology:	The study and diagnosis of disease.
pharmacotherapy:	The treatment of disease through the administration of drugs electroencephalography ("EEG"): The recording of electrical activity along the scalp produced by the firing of neurons within the brain.
psychotropic:	Refers to a chemical substance that crosses the blood-brain barrier and acts primarily upon the central nervous system where it affects brain function, resulting in changes in perception, mood, consciousness, cognition, and behavior.
physiology:	The science of the function of living systems. It is a subcategory of biology.
STAR*D:	Sequenced Treatment Alternatives to Relieve Depression.

TABLE OF CONTENTS

$5,000,000 of Units

PROSPECTUS

Aegis Capital Corp **Cantor Fitzgerald & Co.**

Noble Financial Capital Markets **Ascendiant Capital Markets, LLC**

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. Other Expenses of Issuance and Distribution.

The expenses (other than underwriting discounts and expenses) payable by us in connection with this offering are as follows[1]:

	Amount
SEC registration fee	$ 2,337
FINRA fee	2,621
NASDAQ listing fee[2]	5,000
Printing and mailing expenses	20,000
Accounting fees and expenses	40,000
Legal fees and expenses	550,000
Transfer agent fees and expenses	20,000
Miscellaneous	10,042
Total expenses	$ 650,000

(1) All expenses are estimated except for the SEC fee, the FINRA fee and the NASDAQ listing fee.

(2) Application withdrawn.

ITEM 14. Indemnification of Directors and Officers.

The Delaware General Corporation Law and certain provisions of our certificate of incorporation and bylaws under certain circumstances provide for indemnification of our officers, directors and controlling persons against liabilities which they may incur in such capacities. A summary of the circumstances in which such indemnification is provided for is contained herein, but this description is qualified in its entirety by reference to our certificate of incorporation, bylaws and to the statutory provisions.

In general, any officer, director, employee or agent may be indemnified against expenses, fines, settlements or judgments arising in connection with a legal proceeding to which such person is a party, if that person's actions were in good faith, were believed to be in our best interest, and with respect to any criminal action or proceeding, such person had no reasonable cause to believe their actions were unlawful. Unless such person is successful upon the merits in such an action, indemnification may be awarded only after a determination by independent decision of the board of directors, by legal counsel, or by a vote of the stockholders, that the applicable standard of conduct was met by the person to be indemnified.

The circumstances under which indemnification is granted in connection with an action brought on our behalf is generally the same as those set forth above; however, with respect to such actions, indemnification is granted only with respect to expenses actually incurred in connection with the defense or settlement of the action. In such actions, unless the court determines otherwise, the person to be indemnified must have acted in good faith and in a manner believed to have been in our best interest, and have not been adjudged liable to the corporation.

Indemnification may also be granted pursuant to the terms of agreements which we are currently party to with each of our directors and executive officers, agreements which we may enter into in the future or pursuant to a vote of stockholders or directors. Delaware law and our certificate of incorporation also grant the power to us to purchase and maintain insurance which protects our officers and directors against any liabilities incurred in connection with their service in such a position, and such a policy may be obtained by us.

A stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. Apart from our current litigation with Brandt, there is no pending litigation or proceeding involving any of our directors, officers or employees regarding which indemnification by us is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Reference is made to the following documents filed as exhibits to this Registration Statement regarding relevant indemnification provisions described above and elsewhere herein:

Exhibit	Number
Certificate of Incorporation of Registrant, as amended	3.1 and 3.1.1
Bylaws of Registrant	3.2
Form of Indemnification Agreement	10.22

ITEM 15. Recent Sales of Unregistered Securities.

Reference is made to the Shares for Debt Agreement entered into on January 11, 2007 described in the section entitled “Certain Relationships and Related Transactions and Director Independence” in the prospectus.

2009 Private Placement Transactions

On August 26, 2009, we received gross proceeds of approximately $2,043,000 in the first closing of our private placement transaction with six 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 6,000 shares of our common stock and a five year non-callable warrant to purchase 3,000 shares of our common stock at an exercise price of $9.00 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. These private placement transactions are described in further detail in “Liquidity and Capital Resources” below and Note 3 to the audited consolidated financial statements.

Prior to our private placement, we raised aggregate proceeds of $1,700,000 in fiscal year 2009 through the issuance of secured convertible promissory notes on each of March 30, May 14, and June 12, 2009. Upon the first closing of our private placement on August 26, 2009, these notes were converted into shares of our common stock, as more fully described in Note 3 of the audited consolidated financial statements.

July 5, 2010 Grant of Warrants to Consultants

On July 5, 2010, the Board granted warrants to purchase 16,668 shares of common stock to staff members of Equity Dynamics for consulting services rendered to the Company in connection with fund raising activities. Equity Dynamics, Inc. is a company owned by Mr. Pappajohn. These warrants have an exercise price of $9.00 per share, are exercisable from the date of grant and have a term of 10 years from the date of grant.

The warrants issued to staff members of Equity Dynamics were not registered under the Securities Act. No general solicitation or advertising was used in connection with the grant. In making the grant without registration under the Securities Act, the Company relied upon the exemption from registration contained in Section 4(2) of the Securities Act.

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 January 30, 2012, we raised an additional $2.00 million through the sale of subordinated secured convertible notes (“$2MM Bridge Notes”) and warrants.

On February 29, 2011, we raised an additional $90,000 through the sale of an unsecured convertible note 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.”*

ITEM 16. Exhibits and Financial Statement Schedules.

a. The exhibits listed under the caption “Exhibit Index” following the signature page are filed herewith or incorporated by reference herein.

b. Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

ITEM 17. Undertakings.

(a) Rule 415 Offering. The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the “Calculation of Registration Fee” table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(5)(ii) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(6) For the purpose of determining liability of the registrant under the Securities Act to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(h) Request for Acceleration of Effective Date or filing of registration statement becoming effective upon filing.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(i) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Aliso Viejo, State of California, on May 21, 2012.

CNS RESPONSE, INC.
(Registrant)
By: /s/ George Carpenter
George Carpenter
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates stated.

Signature	Title	Date
/s/ George Carpenter George Carpenter	Chief Executive Officer and Director (Principal Executive Officer)	May 21, 2012
/s/ Paul Buck Paul Buck	Chief Financial Officer (Principal Financial and Accounting Officer)	May 21, 2012
/s/ David B. Jones David B. Jones	Chairman of the Board	May 21, 2012
* Henry T. Harbin, M.D.	Director	May 21, 2012
* John Pappajohn	Director	May 21, 2012
* George Kallins, M.D.	Director	May 21, 2012
/s/ Zachary McAdoo Zachary McAdoo	Director	May 21, 2012
/s/ Maurice DeWald Maurice DeWald	Director	May 21, 2012
* /s/ George Carpenter George Carpenter, by power-of-attorney		May 21, 2012

EXHIBIT INDEX

Exhibit Number	Exhibit Title
1.1	Form of Underwriting Agreement
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. Incorporated by reference to Exhibit No. 3.1 to the Registrant's Form 10-K for the year ended September 30, 2011 (File No. 000-26285) filed with the Commission on December 22, 2011.
3.1.1	Certificate of Amendment to the Certificate of Incorporation, as amended. Incorporated by reference to Exhibit No. 3.1 to the Registrant's Form 8-K (File No. 000-26285) filed with the Commission on April 2, 2012.
3.2	Bylaws. Incorporated by reference to Exhibit No. 3.1 to the Registrant's Form 8-K (File No. 000-26285) filed with the Commission on March 28, 2012.
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.
4.2**	2012 Omnibus Incentive Compensation Plan (Subject to stockholder approval). Incorporated by reference to Exhibit 4.2 to the Registrant's Amendment No. 4 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on April 25, 2011.
4.3	Intentionally omitted.
4.4	Sample Stock Certificate. Incorporated by reference to Exhibit 4.4 to the Registrant's Amendment No. 4 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on April 25, 2012.
4.5	Form of Warrant Agreement and Form of Warrant.
4.6	Form of Representative's Option Agreement
5.1	Opinion of SNR Denton US LLP.*
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.

Exhibit Number	Exhibit Title
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.
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.

Exhibit Number	Exhibit Title
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.
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	Form of Registration Rights Agreement dated August 26, 2009 between the Registrant and Maxim Group, LLC. Incorporated by reference 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	Form of Amendment No.1 to Placement Agent Agreement dated July 21, 2010 between the Registrant and Maxim Group LLC. Incorporated by reference 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	Form of Amendment No.1 to Form of Warrant issued to Placement Agent dated July 21, 2010. Incorporated by reference 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.

Exhibit Number	Exhibit Title
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 reference 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 Unsecured 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.

Exhibit Number	Exhibit Title
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. Incorporated by reference to Exhibit 10.54 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Commission on December 22, 2011.
10.55	Form of Amendment and Conversion Agreement for the Subordinated Unsecured Convertible Promissory Notes between the Registrant and the holders signatory thereto. Incorporated by reference to Exhibit 10.55 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Commission on December 22, 2011.
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. Incorporated by reference to Exhibit 10.56.1 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 22, 2011.

Exhibit Number	Exhibit Title
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. Incorporated by reference to Exhibit 10.58 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 22, 2011.
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.
10.60	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 6, 2012.
10.61	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 6, 2012.
10.62	Consulting Agreement between Henry T. Harbin and CNS Response, Inc., dated as of January 1, 2010. Incorporated by reference to Exhibit 10.62 to the Registrant's Amendment No. 4 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on April 25, 2012.
10.63	Advisory Agreement between Equity Dynamics, Inc., and CNS Response, Inc., dated as of February 1, 2010. Incorporated by reference to Exhibit 10.63 to the Registrant's Amendment No. 4 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on April 25, 2012.
10.64	Form of Subordinated Demand Promissory Note, by and between the Company and John Pappajohn. Incorporated by reference to Exhibit 10.64 to the Registrant's Amendment No. 4 to Registration Statement on Form S-1 (File No. 333-173934) filed with the Securities and Exchange Commission on April 25, 2012.
10.65	Form of Conversion Agreement for the Senior Convertible Promissory Notes ("October Notes") between the Registrant and the holders' signatory thereto, dated as of May 4, 2012.
10.66	Form of Conversion Agreement for the Subordinated Convertible Promissory Notes ("January Notes") between the Registrant and the holders' signatory thereto, dated as of May 4, 2012.
10.67	Form of Conversion Agreement for the Subordinated Convertible Promissory Notes ("2011 Bridge Notes") between the Registrant and the holders' signatory thereto, dated as of May 4, 2012.
21.1	Subsidiaries of the Registrant. Incorporated by reference to Exhibit 21.1 to the Registrant's Annual Report on Form 10-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 22, 2011.
23.1	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (included in the signature page to the Registration Statement on Form S-1 (File Number 333-173934) filed with the Commission on May 5, 2011).

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* to be filed by amendment.

** indicates a management contract or compensatory plan.

$________

CNS RESPONSE, INC.

Units Consisting of Two Shares of Common Stock and One Warrant to Purchase One Share of Common Stock

FORM OF UNDERWRITING AGREEMENT

May __, 2012

Aegis Capital Corp.
(As Representative of the several Underwriters
named on Schedule C attached hereto)
c/o Aegis Capital Corp.
810 Seventh Avenue, 11th Floor
New York, New York 10019

Ladies and Gentlemen:

1. *INTRODUCTION*. CNS Response, Inc., a Delaware corporation (the "**Company**"), proposes to issue and sell to the several Underwriters listed in Schedule C hereto (the "**Underwriters**"), for whom Aegis Capital Corp. is acting as the Representative (the "**Representative**"), pursuant to the terms and conditions of this Underwriting Agreement (this "**Agreement**"), an aggregate of _________ units, each unit consisting of two (2) shares of the Company's authorized but unissued common voting shares, $0.001 par value (the "**Common Stock**"), or _________ shares of Common Stock in the aggregate, and one (1) warrant to purchase one (1) share of Common Stock, or ________ warrants to purchase _________ shares of Common Stock in the aggregate (the "**Warrants**"), of the Company (each, a "**Firm Unit**" and collectively, the "**Firm Units**"). The securities comprising the units will not be issued separately and will not be separately transferable until the earlier of (i) the exercise in full of the Underwriters' overallotment option in the Offering (as defined below) or (ii) 45 days from the date of the final prospectus supplement filed under the Securities Act in connection with the Offering.

The Company has granted to the Underwriters an option to purchase up to an additional ________ units, or ______% of the Firm Units (each, an **"Additional Unit"** and collectively, the "**Additional Units**"), with each Additional Unit consisting of two (2) shares of Common Stock and one (1) warrant to purchase one (1) share of Common Stock. The Firm Units and the Additional Units are collectively referred to as the "**Units**." The Units, the shares of Common Stock underlying the Units, the Warrants, the shares of Common Stock underlying the Warrants, the Representative's Securities (as defined in Section 2.4), and the shares of Common Stock underlying the Representative's Option (as defined in Section 2.4) are referred to herein collectively as the "**Securities**."The Firm Units are more fully described in the Registration Statement and Prospectus referred to below. The offering and sale of the Firm Units and Additional Units, together, are herein referred to as the "**Offering.**"

The Underwriters may exercise their option to purchase Additional Units in whole or from time to time in part by giving written notice not later than forty five (45) days after the date of this Agreement. Any exercise notice shall specify the number of Additional Units to be purchased by the Underwriters and the date on which such shares are to be purchased. If any Additional Units are to be purchased, the number of Additional Units to be purchased by each Underwriter shall be the number of Additional Units set forth on Schedule C. Each purchase date must be at least one business day after the written notice is given and may not be earlier than the closing date for the Firm Units nor later than five business days after the date of such notice. Additional Units may be purchased hereby solely for the purpose of covering over-allotments made in connection with the offering of the Firm Units. Each day, if any, that Additional Units are to be purchased is referred to herein as an "**Option Closing Date**".

2. *DELIVERY AND PAYMENT*. On the basis of the representations, warranties and agreements of the Company herein contained, and subject to the terms and conditions set forth in this Agreement:

2.1 The Company agrees to issue and sell, and the Underwriters, severally and not jointly, agree to purchase from the Company, an aggregate of _______ Firm Units in the amounts set forth in Schedule C annexed hereto at a purchase price of $________ per Share (the "**Purchase Price**"). The Company has been advised by you that you propose to make a public offering of the Firm Units immediately after this Agreement has become effective. The Company is further advised by you that the Firm Units are to be offered to the public at $____ per Share.

2.2 Payment of the Purchase Price for, and delivery of, the Firm Units, and delivery of the documents required to be delivered to the Underwriters pursuant to Sections 4 and 6 hereof, shall be made at 10:00 a.m., New York time, on ___________, 2012 (the "**Closing Date**") at the New York City offices of Gersten Savage LLP or at such other time and date as the Representative and the Company determine pursuant to Rule 15c6-1(a) under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). On the Closing Date, the Company shall deliver the Firm Units, which shall be registered in the name or names and shall be in such denominations as the Representative may request at least one (1) business day before the Closing Date, to the Representative, which delivery shall be made through the facilities of the Depository Trust Company's DWAC system or Full Fast Delivery Program.

2.3 Payment of the Purchase Price for, and delivery of, any Additional Units shall be made at the Option Closing Date or at such other time and date as the Representative and the Company determine pursuant to Rule 15c6-1(a) under the Exchange Act. On each such date, the Company shall deliver the Additional Units to be purchased on that date, which shall be registered in the name or names and shall be in such denominations as the Representative may request at least one (1) business day before the applicable Option Closing Date, to the Underwriters**,** which delivery shall be made through the facilities of the Depository Trust Company's DWAC system or Full Fast Delivery Program. The price for each Additional Share will be the Purchase Price per Firm Share as set forth in Section 2.1 hereof. The Option Closing Date may be simultaneous with, but not earlier than, the Closing Date; and in the event that such time and date are simultaneous with the Closing Date, the term "**Closing Date**" shall refer to the time and date of delivery of the Firm Units and any Additional Units.

2.4 The Company hereby agrees to issue to the Representative (and/or their respective designees) on the Closing Date an option (the "**Representative's Option**") for the purchase of an aggregate of up to ____ shares of Common Stock (representing __% of the shares of Common Stock included in the Firm Units). The Representative's Option in the form attached hereto as Exhibit C (the "**Representative's Option**") shall be exercisable, in whole or in part, commencing on the date which is one (1) year from the date hereof and shall expire and be un-exercisable after April ___, 2017 [DATE THAT IS FIVE YEARS AFTER DATE OF PROSPECTUS] at a price per share equal to 125% of the initial public offering price of each Firm Share. The Representative's Option and the shares issuable upon exercise thereof are sometimes hereinafter referred to collectively as the "**Representative's Securities.**" The Representative understands and agrees that there are significant restrictions pursuant to FINRA Rule 5110 against transferring the Representative's Option and the underlying shares during 180 day period after the date hereof and by its acceptance thereof shall agree that it and its respective designees, if any, will not, sell, transfer, assign, pledge or hypothecate their respective Representative's Securities, or any portion thereof, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of such securities for a period of 180 days following the date hereof to anyone other than (i) an Underwriter or a selected dealer in connection with the Offering, or (ii) a bona fide officer or partner of one of the Representative or of any such Underwriter or selected dealer; and only if any such transferee agrees to the foregoing lock-up restrictions. Delivery of the executed Representative's Option Agreement shall be made on the Closing Date and the Representative's Option shall be issued in the name or names and in such authorized denominations as the Representative may request.

2.5 No Units which the Company has agreed to sell pursuant to this Agreement shall be deemed to have been purchased and paid for, or sold by the Company, until such Units shall have been delivered to the Underwriters thereof against payment by each of the Underwriters.

3. *REPRESENTATIONS AND WARRANTIES OF THE COMPANY.* The Company represents and warrants to, and agrees with, each of the Underwriters that:

3.1

(a) The Company has prepared and filed in conformity with the requirements of the Securities Act of 1933, as amended (the "**Securities Act**"), and the rules and regulations thereunder (the "**Rules and Regulations**") adopted by the Securities and Exchange Commission (the "**Commission**"), a Registration Statement (as hereinafter defined) on Form S-1 (File No. 333-173934) which became effective as of April 26, 2012 (the "**Effective Date**"), including a Preliminary Prospectus (as defined below), and such amendments and supplements thereto as may have been required to the date of this Agreement. The term "**Registration Statement**" as used in this Agreement means the registration statement (including all exhibits, financial schedules and all documents and information deemed to be a part of the Registration Statement pursuant to Rule 430A of the Rules and Regulations), as amended and/or supplemented to the date of this Agreement, including the Prospectus. The Registration Statement and any post-effective amendment thereto is effective under the Securities Act, and no stop order preventing or suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus (defined below) has been issued by the Commission and no proceedings for that purpose have been instituted or are threatened by the Commission. The Company, if required by the Rules and Regulations of the Commission, will file the Prospectus (as defined below), with the Commission pursuant to Rule 424(b) of the Rules and Regulations. The term "**Prospectus**" as used in this Agreement means the Prospectus, in the form in which it is to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations, or, if the Prospectus is not to be filed with the Commission pursuant to Rule 424(b), the Prospectus in the form included as part of the Registration Statement as of the Effective Date, except that if any revised prospectus or prospectus supplement shall be provided to the Underwriters by the Company for use in connection with the Offering which differs from the Prospectus (whether or not such revised prospectus or prospectus supplement is required to be filed by the Company pursuant to Rule 424(b) of the Rules and Regulations), the term "**Prospectus**" shall refer to such revised prospectus or prospectus supplement, as the case may be, from and after the time it is first provided to the Underwriters for such use (or in the form first made available to the Underwriters by the Company to meet requests of prospective purchasers pursuant to Rule 173 under the Securities Act). Any preliminary prospectus or prospectus subject to completion included in the Registration Statement or filed with the Commission pursuant to Rule 424 of the Rules and Regulations is hereafter called a "**Preliminary Prospectus.**"

(b) As of the Applicable Time (as defined below) and as of the Closing Date and any Option Closing Date, neither (i) any General Use Free Writing Prospectus (as defined below) issued at or prior to the Applicable Time, and the Pricing Prospectus (as defined below) and the information included on Schedule A hereto, all considered together (collectively, the "**General Disclosure Package**"), (ii) any individual Limited Use Free Writing Prospectus (as defined below) nor (iii) the bona fide electronic road show (as defined in Rule 433(h)(5) of the Rules and Regulations), if any, that has been made available without restriction to any person, when considered together with the General Disclosure Package, included and will not include, any untrue statement of a material fact or omitted, as of the Closing Date and any Option Closing Date, will not omit, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however,* that the Company makes no representations or warranties as to information contained in or omitted from any Free Writing Prospectus or Pricing Prospectus in reliance upon, and in conformity with, written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information the parties hereto agree is limited to the Underwriters' Information (as defined in Section 17). As used in this paragraph (b) and elsewhere in this Agreement:

"**Applicable Time**" means 8:00 A.M., New York time, on the date of this Agreement.

"**General Use Free Writing Prospectus**" means any Issuer Free Writing Prospectus that is identified on Schedule A to this Agreement.

"**Issuer Free Writing Prospectus**" means any "**issuer free writing prospectus,**" as defined in Rule 433 of the Rules and Regulations relating to the Units in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company's records pursuant to Rule 433(g) of the Rules and Regulations.

"**Limited Use Free Writing Prospectuses**" means any Issuer Free Writing Prospectus that is not a General Use Free Writing Prospectus.

"**Pricing Prospectus**" means the Preliminary Prospectus, if any, and the Prospectus, each as amended and supplemented immediately prior to the Applicable Time, including any document incorporated by reference therein and any prospectus supplement deemed to be a part thereof.

(c) No order preventing or suspending the use of any Preliminary Prospectus, any Issuer Free Writing Prospectus or the Prospectus relating to the Offering has been issued by the Commission, and no proceeding for that purpose or pursuant to Section 8A of the Securities Act has been instituted or threatened by the Commission, and each Preliminary Prospectus, if any, at the time of filing thereof, conformed in all material respects to the requirements of the Securities Act and the Rules and Regulations, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, that the Company makes no representations or warranties as to information contained in or omitted from any Preliminary Prospectus, in reliance upon, and in conformity with, written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information the parties hereto agree is limited to the Underwriters' Information (as defined in Section 17).

(d) At the time the Registration Statement became or becomes effective, at the date of this Agreement and at the Closing Date and any Option Closing Date, the Registration Statement conformed and will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and subject to the limitation set forth below did not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; the Prospectus and any amendments or supplements thereto, at the time the Prospectus or any amendment or supplement thereto was issued and at the Closing Date and any Option Closing Date, conformed and will conform in all material respects to the requirements of the Securities Act and the Rules and Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however,* that the foregoing representations and warranties in this paragraph (d) shall not apply to information contained in or omitted from the Registration Statement or the Prospectus or any amendment or supplement thereto in reliance upon, and in conformity with, written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information the parties hereto agree is limited to the Underwriters' Information (as defined in Section 17).

(e) The documents incorporated by reference in the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and none of such documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and any further documents so filed and incorporated by reference in the Prospectus, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(f) The Company has not, directly or indirectly, distributed and will not distribute any offering material in connection with the Offering other than any Preliminary Prospectus, the Prospectus and other materials, if any, permitted under the Securities Act and consistent with Section 4(b) below.

(g) The Company and each Subsidiary (as defined below) has been duly incorporated and is validly existing as a corporation in good standing (or the foreign equivalent thereof) under the laws of its jurisdiction of organization. The Company and each Subsidiary is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which its ownership or lease of property or the conduct of its business requires such qualification and has all requisite corporate power and authority necessary to own or hold its properties and to conduct the business in which it is engaged, except where the failure to so qualify or have such power or authority (i) would not have, singularly or in the aggregate, a material adverse effect on the condition (financial or otherwise), results of operations, assets or business or prospects of the Company or any Subsidiary, taken as a whole, or (ii) impair in any material respect the ability of the Company to perform its obligations under this Agreement or to consummate any transactions contemplated by this Agreement or the Representative's Option, the General Disclosure Package or the Prospectus (any such effect as described in clauses (i) or (ii), a "**Material Adverse Effect**"). The Company owns or controls, directly or indirectly, only the following corporations, partnerships, limited liability partnerships, limited liability companies, associations or other entities: CNS Response, Inc., a California corporation, Colorado CNS Response, Inc., a Colorado corporation, and Neuro-Therapy Clinic, Inc., a Colorado corporation (each a "**Subsidiary**").

(h) The Company has the full corporate right, power and authority to enter into this Agreement, the Warrant Agreement and the Representative's Option, and to perform and to discharge its obligations hereunder and thereunder; and this Agreement, the Warrant Agreement and the Representative's Option have been duly authorized, executed and delivered by the Company, and constitute the valid and binding obligations of the Company enforceable in accordance with their respective terms. All corporate action required to be taken for the authorization, issuance and sale of the Units, the Representative's Option and the Representative' Securities have been duly and validly taken.

(i) The Firm Units and Additional Units to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued, fully paid and non-assessable and will conform in all material respects to the description thereof contained in the General Disclosure Package and the Prospectus.

(j) The Company has an authorized capitalization as set forth in the Pricing Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable, have been issued in compliance with federal and state securities laws, and conform to the description thereof contained in the General Disclosure Package and the Prospectus. As of May __, 2012, there were 1,874,175 shares of Common Stock issued and outstanding, and 566,532 shares of Common Stock were issuable upon the exercise of all options and 2,252,061 shares of Common Stock were issuable upon the exercise of warrants and 2,767,228 were issuable upon the conversion of convertible securities outstanding as of such date. Since such date, the Company has not issued any securities, other than Common Stock of the Company issued pursuant to the exercise of stock options previously outstanding under the Company's stock option plans or any issuance of restricted Common Stock pursuant to employee stock purchase plans or upon the conversion of convertible securities outstanding on such date but as disclosed in the Registration Statement. All of the Company's options, warrants and other rights to purchase or exchange any securities for shares of the Company's capital stock have been duly authorized and were issued in compliance with federal and state securities laws. The Units and the Representative's Securities to be issued and sold by the Company under this Agreement and under the Representative's Option, as applicable, have been duly authorized and, when issued, delivered and paid for in accordance with the terms of this Agreement and the Representative's Option, as applicable, will have been validly issued and will be fully paid and nonassessable and will conform to the description thereof in the General Disclosure Package and the Prospectus and will be free of statutory and contractual preemptive rights, resale rights, rights of first refusal and similar rights, other than as described in the General Disclosure Package and the Prospectus. The Units have been duly and validly authorized and, when issued, delivered and paid for in accordance with this Agreement on the Closing Date or Option Closing Date, will be duly and validly issued, fully paid and non-assessable, will have been issued in compliance with all applicable state and federal securities laws and will not have been issued in violation of or subject to any preemptive or similar right granted by the Company (including, without limitation, through its certificate of incorporation or by laws) or by operation of law that does or will entitle any person to acquire any security from the Company upon issuance or sale of the Units in the Offering. The issuance of any of the foregoing Company securities is not subject to any statutory preemptive rights under the laws of the Company's jurisdiction or the Company's organization documents as in effect at the time of issuance, rights of first refusal or other similar rights of any securityholder of the Company (except for such preemptive or contractual rights as were waived). None of the outstanding shares of Common Stock was issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase securities of the Company. There are no authorized or outstanding shares of capital stock, options, warrants, preemptive rights, rights of first refusal or other rights to purchase, or equity or debt securities convertible into or exchangeable or exercisable for, any capital stock of the Company or any of its subsidiaries other than those described above or accurately described in the General Disclosure Package. The description of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted thereunder, as described in the General Disclosure Package and the Prospectus, accurately and fairly present the information required to be shown with respect to such plans, arrangements, options and rights.

(k) All the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued, are fully paid and non-assessable and, except to the extent set forth in the General Disclosure Package or the Prospectus, are owned by the Company directly or indirectly through one or more wholly-owned Subsidiaries, free and clear of any claim, lien, encumbrance, security interest, restriction upon voting or transfer or any other claim of any third party or that would not be expected to have a Material Adverse Effect.

(l) The execution, delivery and performance of this Agreement, the Warrant Agreement and the Representative's Option by the Company, the issue and sale of the Units and the Representative's Securities by the Company and the consummation of the transactions contemplated hereby and thereby (i) will not (with or without notice or lapse of time or both) conflict with or result in a breach or violation of any of the terms or provisions of, constitute a default under, give rise to any right of termination or other right or the cancellation or acceleration of any right or obligation or loss of a benefit under, or give rise to the creation or imposition of any lien, encumbrance, security interest, claim or charge upon any property or assets of the Company or any Subsidiary pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound or to which any of the property or assets of the Company or any Subsidiary is subject, nor (ii) will such actions result in any violation of the provisions of the charter or by-laws of the Company or any Subsidiary or (iii) any law, statute, rule, regulation, judgment, order or decree of any court or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any Subsidiary or any of their properties or assets (including, without limitation, those promulgated by the Food and Drug Administration of the U.S. Department of Health and Human Services (the "**FDA**") or by any foreign, federal, state or local regulatory authority performing functions similar to those preformed by the FDA), except in the case of clauses (i) and (iii) of this paragraph, for such breaches, violations or defaults that would not individually or in the aggregate have a Material Adverse Effect.

(m) Except for the registration of the Units under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act and applicable state or foreign securities laws, the Financial Industry Regulatory Authority ("**FINRA**") and the Over-the-Counter Bulletin Board and any national securities exchange where the Common Stock is approved for listing ("**Applicable Trading Market**") in connection with the offering and sale of the Units and the Representative's Securities by the Company, no consent, approval, authorization or order of, or filing, qualification or registration with, any court or governmental agency or body, foreign or domestic, which has not been made, obtained or taken and is not in full force and effect, is required for the execution, delivery and performance of this Agreement, the Warrant Agreement and the Representative's Option by the Company, the offer or sale of the Units or the consummation of the transactions contemplated hereby or thereby (other than the filing of a resale registration statement pursuant to the terms of the Representative's Option).

(n) To the Knowledge of the Company, the Cacciamatta Accountancy Corporation, which has provided an audit opinion concerning the Company's financial statements and schedules, if any, for the periods set forth in the General Disclosure Package and the Prospectus in such report and included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus, have audited the Company's financial statements and is an independent registered public accounting firm as required by the Securities Act and the Rules and Regulations and the Public Company Accounting Oversight Board (United States) (the "**PCAOB**"). Except as disclosed in the Registration Statement and as pre-approved in accordance with the requirements set forth in Section 10A of the Exchange Act, Cacciamatta Accountancy Corporation has not been engaged by the Company to perform any "prohibited activities" (as defined in Section 10A of the Exchange Act).

(o) The financial statements, together with the related notes and schedules, included or incorporated by reference in the General Disclosure Package, the Prospectus and in each Registration Statement fairly present in all material respects the financial position and the results of operations and changes in financial position of the Company and its consolidated subsidiaries at the respective dates or for the respective periods therein specified. Such statements and related notes and schedules have been prepared in accordance with generally accepted accounting principles in the United States ("**GAAP**") applied on a consistent basis throughout the periods involved except as may be set forth in the related notes included or incorporated by reference in the Registration Statement, the General Disclosure Package or the Prospectus. The financial statements, together with the related notes and schedules, included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus comply in all material respects with the Securities Act, the Exchange Act, and the Rules and Regulations and the rules and regulations under the Exchange Act. No other financial statements or supporting schedules or exhibits are required by the Securities Act or the Rules and Regulations to be described, or included or incorporated by reference in the Registration Statement, the General Disclosure Package or the Prospectus. There is no pro forma or as adjusted financial information which is required to be included or incorporated by reference in the Registration Statement, the General Disclosure Package, or and the Prospectus in accordance with the Securities Act and the Rules and Regulations which has not been included or incorporated as so required. The pro forma and pro forma as adjusted financial information and the related notes, if any, included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus have been compiled and prepared in accordance with the applicable requirements of the Securities Act and the Rules and Regulations and present fairly the information shown therein.

(p) Neither the Company nor any Subsidiary has sustained, since the date of the latest financial statements included or incorporated by reference in the General Disclosure Package, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Registration Statement, General Disclosure Package or Prospectus; and, since such date, there has not been any material change in the capital stock or long-term debt of the Company or any Subsidiary.

(q) Except as set forth in the General Disclosure Package, there is no legal or governmental action, suit, claim or proceeding pending to which the Company or any Subsidiary is a party or of which any property or assets of the Company any Subsidiary is the subject which is required to be described in the Registration Statement, the General Disclosure Package or the Prospectus and is not described therein, or which, singularly or in the aggregate, if determined adversely to the Company or any Subsidiary, could have a Material Adverse Effect or would provide for the inability of the Company to consummate the transactions contemplated hereby; and to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(r) Neither the Company nor any Subsidiary is in (i) violation of its charter or by-laws, (ii) default in any respect, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it is bound or to which any of its property or assets is subject or (iii) violation in any respect of any law, ordinance, governmental rule, regulation or court order, decree or judgment to which it or its property or assets may be subject except, in the case of clauses (ii) and (iii) of this paragraph (s), for any violations or defaults which, singularly or in the aggregate, would not have a Material Adverse Effect.

(s) The Company and each Subsidiary possesses all licenses, certificates, authorizations and permits issued by, and have made all declarations and filings with, the appropriate local, state, federal or foreign regulatory agencies or bodies which are necessary or desirable for the ownership of its properties or the conduct of its businesses as described in the General Disclosure Package and the Prospectus (collectively, the "**Governmental Permits**") except where any failures to possess or make the same, singularly or in the aggregate, would not have a Material Adverse Effect. The Company and each Subsidiary is in compliance with all such Governmental Permits; all such Governmental Permits are valid and in full force and effect, except where the validity or failure to be in full force and effect would not, singularly or in the aggregate, have a Material Adverse Effect. All such Governmental Permits are free and clear of any restriction or condition that are in addition to, or materially different from those normally applicable to similar licenses, certificates, authorizations and permits. Neither the Company nor any Subsidiary has received notification of any revocation or modification (or proceedings related thereto) of any such Governmental Permit and the Company has no reason to believe that any such Governmental Permit will not be renewed.

(t) Neither the Company nor any Subsidiary is or, after giving effect to the offering of the Units and the Representative's Securities and the application of the proceeds thereof as described in the General Disclosure Package and the Prospectus, will become an "**investment company**" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder.

(u) Neither the Company, nor any Subsidiary nor, to the Company's knowledge, any of the Company's or any Subsidiary's officers, directors or Affiliates has taken or will take, directly or indirectly, any action designed or intended to stabilize or manipulate the price of any security of the Company, or which caused or resulted in, or which might in the future reasonably be expected to cause or result in, stabilization or manipulation of the price of any security of the Company.

(v) To the Company's knowledge, the Company and each Subsidiary owns or possesses the right to use all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, software, databases, know-how, Internet domain names, trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures, and other intellectual property (collectively, "**Intellectual Property**") necessary to carry their respective businesses as currently conducted, and as proposed to be conducted and described in the General Disclosure Package and the Prospectus, and the Company is not aware of any claim to the contrary or any challenge by any other person to the rights of the Company or any Subsidiary with respect to the foregoing except for those described in the General Disclosure Package and the Prospectus or those that could not have a Material Adverse Effect. The Intellectual Property licenses described in the General Disclosure Package and the Prospectus are valid, binding upon, and enforceable by or against the parties thereto in accordance to their terms. The Company and each Subsidiary has complied in all material respects with, and is not in breach nor has received any asserted or threatened claim of breach of, any Intellectual Property license, and the Company has no knowledge of any breach or anticipated breach by any other person to any Intellectual Property license. To the Company's knowledge, the Company and each Subsidiary's business as now conducted and as proposed to be conducted does not and will not infringe or conflict with any patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses or other Intellectual Property or franchise right of any person. No claim has been made against the Company or any Subsidiary alleging the infringement by the Company or any Subsidiary of any patent, trademark, service mark, trade name, copyright, trade secret, license in or other intellectual property right or franchise right of any person. The Company and each Subsidiary has taken all reasonable steps to protect, maintain and safeguard its rights in all Intellectual Property, including the execution of appropriate nondisclosure and confidentiality agreements. The consummation of the transactions contemplated by this Agreement or the Representative's Option will not result in the loss or impairment of or payment of any additional amounts with respect to, nor require the consent of any other person in respect of, the Company or any Subsidiary's right to own, use, or hold for use any of the Intellectual Property as owned, used or held for use in the conduct of the businesses as currently conducted. With respect to the use of the software in the Company or any Subsidiary's business as it is currently conducted, neither the Company nor any Subsidiary has experienced any material defects in such software including any material error or omission in the processing of any transactions other than defects which have been corrected. The Company and each Subsidiary has at all times complied with all applicable laws relating to privacy, data protection, and the collection and use of personal information collected, used, or held for use by the Company and any Subsidiary in the conduct of the Company and its Subsidiary's business except where the failure to do so would not have a Material Adverse Effect. No claims have been asserted or threatened against the Company or any Subsidiary alleging a violation of any person's privacy or personal information or data rights and the consummation of the transactions contemplated hereby will not breach or otherwise cause any violation of any law related to privacy, data protection, or the collection and use of personal information collected, used, or held for use by the Company or any Subsidiary in the conduct of the Company's or any Subsidiary's business. The Company and each Subsidiary takes reasonable measures to ensure that such information is protected against unauthorized access, use, modification, or other misuse, except for those that would not have a Material Adverse Effect.

(w) The Company and each Subsidiary has good and marketable title in fee simple to, or have valid rights to lease or otherwise use, all items of real or personal property which are material to the business of the Company and any Subsidiary as currently conducted in each case free and clear of all liens, encumbrances, security interests, claims and defects that do not, singularly or in the aggregate, materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company or any Subsidiary; and all of the leases and subleases material to the business of the Company and any Subsidiary, and under which the Company or any Subsidiary holds properties described in the General Disclosure Package and the Prospectus, are in full force and effect, and neither the Company nor any Subsidiary has received any notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company or any Subsidiary under any of the leases or subleases mentioned above, or affecting or questioning the rights of the Company or such Subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease.

(x) No labor disturbance by the employees of the Company or any Subsidiary exists or, to the best of the Company's knowledge, is imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or any Subsidiary's principal suppliers, manufacturers, customers or contractors, that could reasonably be expected, singularly or in the aggregate, to have a Material Adverse Effect. The Company is not aware that any key employee or significant group of employees of the Company or any Subsidiary plans to terminate employment with the Company or any Subsidiary.

(y) No "prohibited transaction" (as defined in Section 406 of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("**ERISA**"), or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time (the "**Code**")) or "**accumulated funding deficiency**" (as defined in Section 302 of ERISA) or any of the events set forth in Section 4043(b) of ERISA (other than events with respect to which the thirty (30)-day notice requirement under Section 4043 of ERISA has been waived) has occurred or could reasonably be expected to occur with respect to any employee benefit plan of the Company or any Subsidiary which could, singularly or in the aggregate, have a Material Adverse Effect. Each employee benefit plan of the Company or any Subsidiary is in compliance in all material respects with applicable law, including ERISA and the Code. The Company and each Subsidiary has not incurred and could not reasonably be expected to incur liability under Title IV of ERISA with respect to the termination of, or withdrawal from, any pension plan (as defined in ERISA) which could have a Material Adverse Effect. Each pension plan for which the Company and each Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified, and nothing has occurred, whether by action or by failure to act, which could, singularly or in the aggregate, cause the loss of such qualification.

(z) The Company and each Subsidiary is in compliance with all foreign, federal, state and local rules, laws and regulations relating to the use, treatment, storage and disposal of hazardous or toxic substances or waste and protection of health and safety or the environment which are applicable to its businesses ("**Environmental Laws**"), except where the failure to comply would not, singularly or in the aggregate, have a Material Adverse Effect. There has been no storage, generation, transportation, handling, treatment, disposal, discharge, emission, or other release of any kind of toxic or other wastes or other hazardous substances by, due to, or caused by the Company or any Subsidiary (or, to the Company's knowledge, any other entity for whose acts or omissions the Company or any Subsidiary is or may otherwise be liable) upon any of the property now or previously owned or leased by the Company or any Subsidiary, or upon any other property, in violation of any law, statute, ordinance, rule, regulation, order, judgment, decree or permit or which would, under any law, statute, ordinance, rule (including rule of common law), regulation, order, judgment, decree or permit, give rise to any liability, except for any violation or liability which would not have, singularly or in the aggregate with all such violations and liabilities, a Material Adverse Effect; and there has been no disposal, discharge, emission or other release of any kind onto such property or into the environment surrounding such property of any toxic or other wastes or other hazardous substances with respect to which the Company has knowledge, except for any such disposal, discharge, emission, or other release of any kind which would not have, singularly or in the aggregate with all such discharges and other releases, a Material Adverse Effect.

(aa) The Company and each Subsidiary (i) has timely filed all necessary federal, state, local and foreign tax returns, and all such returns were true, complete and correct in all material respects, (ii) has paid all federal, state, local and foreign taxes, assessments, governmental or other charges due and payable for which it is liable, including, without limitation, all sales and use taxes and all taxes which the Company or any Subsidiary is obligated to withhold from amounts owing to employees, creditors and third parties, and (iii) does not have any tax deficiency or claims outstanding or assessed or, to the best of its knowledge, proposed against any of them, except those, in each of the cases described in clauses (i), (ii) and (iii) of this paragraph (bb), that would not, singularly or in the aggregate, have a Material Adverse Effect. The Company and each Subsidiary, has not engaged in any transaction which is a corporate tax shelter or which could be characterized as such by the Internal Revenue Service or any other taxing authority. The accruals and reserves on the books and records of the Company and each Subsidiary in respect of tax liabilities for any taxable period not yet finally determined are adequate to meet any assessments and related liabilities for any such period, and since inception the Company and each Subsidiary has not incurred any liability for taxes other than in the ordinary course.

(bb) The Company and each Subsidiary carries, or is covered by, insurance provided by recognized, reputable institutions with policies in such amounts and covering such risks as is, in its reasonable opinion, adequate for the conduct of its business and the value of its properties and as is customary for companies engaged in similar businesses in similar industries. The Company has no reason to believe that it or any Subsidiary will not be able (i) to renew its existing insurance coverage as and when such policies expire or (ii) to obtain comparable coverage from similar institutions as may be necessary or appropriate to conduct its business as now conducted and at a cost that would not result in a Material Adverse Effect.

(cc) The Company and each Subsidiary maintains a system of internal accounting and other controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Except as described in the Registration Statement and the General Disclosure Package, since the end of the Company's most recent audited fiscal year, there has been (A) no material weakness in the Company's internal control over financial reporting (whether or not remediated) and (B) no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(dd) The minute books of the Company and each Subsidiary have been made available to the Underwriters and counsel for the Underwriters, and such books (i) contain a complete summary of all meetings and actions of the board of directors (including each board committee) and stockholders of the Company and each Subsidiary since the time of its respective incorporation or organization through the date of the latest meeting and action, and (ii) accurately in all material respects reflect all transactions referred to in such minutes.

(ee) There is no franchise, lease, contract, agreement or document required by the Securities Act or by the Rules and Regulations to be described in the Registration Statement or General Disclosure Package and in the Prospectus or to be filed as an exhibit to the Registration Statement or a document incorporated by reference therein which is not described or filed therein as required; and all descriptions of any such franchises, leases, contracts, agreements or documents contained in the Registration Statement are accurate and complete descriptions of such documents in all material respects. Other than as described in the Registration Statement or the General Disclosure Package, no such franchise, lease, contract or agreement has been suspended or terminated for convenience or default by the Company or any Subsidiary or any of the other parties thereto, and neither the Company nor any Subsidiary has received notice nor does the Company have any other knowledge of any such pending or threatened suspension or termination, except for such pending or threatened suspensions or terminations that would not reasonably be expected to, singularly or in the aggregate, have a Material Adverse Effect.

(ff) No relationship, direct or indirect, exists between or among the Company and any Subsidiary on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or any Subsidiary or any of their affiliates on the other hand, which is required under the Securities Act to be described in the General Disclosure Package and the Prospectus and which is not so described.

(gg) Except as disclosed in the General Disclosure Package and in the Prospectus, no person or entity has the right to require registration of shares of Common Stock or other securities of the Company or any Subsidiary because of the filing or effectiveness of the Registration Statement or otherwise, except for persons and entities who have expressly waived such right in writing or who have been given timely and proper written notice and have failed to exercise such right within the time or times required under the terms and conditions of such right. Except as described in the General Disclosure Package and the Prospectus, there are no persons with registration rights or similar rights to have any securities registered by the Company or any Subsidiary under the Securities Act.

(hh) Neither the Company nor any Subsidiary owns any "margin securities" as that term is defined in Regulation U of the Board of Governors of the Federal Reserve System (the "**Federal Reserve Board**"), and none of the proceeds of the sale of the Units or the Representative's Securities will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security, for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry any margin security or for any other purpose which might cause any of the Units or Representative's Securities to be considered a "purpose credit" within the meanings of Regulation T, U or X of the Federal Reserve Board.

(ii) Neither the Company nor any Subsidiary is a party to any contract, agreement or understanding with any person that would give rise to a valid claim against the Company or any Underwriter for a brokerage commission, finder's fee or like payment in connection with the offering and sale of the Units or Representative's Securities or any transaction contemplated by this Agreement, the Representative's Option, the Registration Statement, the General Disclosure Package or the Prospectus.

(jj) No forward-looking statement (within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act) contained in either the General Disclosure Package or the Prospectus has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith as provided for under the Securities Act.

(kk) Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("**OFAC**"); and the Company will not directly or indirectly use the proceeds of the offering of the Units contemplated hereby, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other person or entity for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(ll) The Company is subject to and in compliance in all material respects with the reporting requirements of Section 13 or Section 15(d) of the Exchange Act. The Common Stock is registered pursuant to Section 12(b) or 12(g), as the case may be, of the Exchange Act and have been approved for listing (to the extent required) on the Applicable Trading Market, and the Company has taken no action designed to, or reasonably likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or delisting the Common Stock from the Applicable Trading Market, nor has the Company received any notification that the Commission or FINRA is contemplating terminating such registration or listing.

(mm) The Company is in compliance with all applicable provisions of the Sarbanes-Oxley Act of 2002 and all rules and regulations promulgated thereunder or implementing the provisions thereof (the "**Sarbanes-Oxley Act**") that are now in effect and applicable to the Company.

(nn) The Company will, upon the Closing, be in compliance with all applicable corporate governance requirements set forth in the Nasdaq Marketplace Rules that are now in effect.

(oo) There are no transactions, arrangements or other relationships between and/or among the Company or any Subsidiary, any of their affiliates (as such term is defined in Rule 405 of the Securities Act) and any unconsolidated entity, including, but not limited to, any structure finance, special purpose or limited purpose entity that could reasonably be expected to materially affect the Company or any Subsidiary's liquidity or the availability of or requirements for its capital resources required to be described in the General Disclosure Package and the Prospectus or a document incorporated by reference therein which have not been described as required.

(pp) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees or indebtedness by the Company or any Subsidiary to or for the benefit of any of the officers or directors of the Company, any Subsidiary or any of their respective family members, except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus. All transactions by the Company with office holders or control persons of the Company have been duly approved by the board of directors of the Company, or duly appointed committees or officers thereof.

(qq) The statistical and market related data included or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus are based on or derived from sources that the Company believes to be reliable and accurate, and such data agree with the sources from which they are derived in all material respects.

(rr) To the Company's Knowledge, neither the Company nor any Subsidiary nor any of their affiliates (within the meaning of FINRA's Conduct Rule 5121(f)(1)) directly or indirectly controls, is controlled by, or is under common control with, or is an associated person (within the meaning of Article I, Section 1(ee) of the By-laws of FINRA) of, any member firm of FINRA.

(ss) Neither the Company nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder; and the Company and, to the knowledge of the Company, its affiliates have instituted and maintain policies and procedures reasonably designed to ensure continued compliance therewith.

(tt) The operations of the Company are and have been conducted at all times in compliance in all material respects with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**"); and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator or non-governmental authority involving the Company with respect to the Money Laundering Laws is pending or, to the Company's knowledge, threatened.

(uu) All preclinical and clinical studies conducted by or on behalf of the Company that are material to the Company and the Subsidiaries, taken as a whole, are or have been described in the Registration Statement, the General Disclosure Package and the Prospectus in all material respects. To the Company's knowledge, after reasonable inquiry, other than as described in the Registration Statement, the clinical and preclinical studies conducted by or on behalf of the Company and its Subsidiaries that are described in the Registration Statement, the General Disclosure Package and the Prospectus or the results of which are referred to in the Registration Statement, the General Disclosure Package and the Prospectus were and, if still ongoing, are being conducted in material compliance with all laws and regulations applicable thereto in the jurisdictions in which they are being conducted and with all laws and regulations applicable to preclinical and clinical studies from which data will be submitted to support marketing approval. The descriptions in the Registration Statement, the General Disclosure Package and the Prospectus, if any, of the results of such studies are accurate and complete in all material respects and fairly present the data derived from such studies, and the Company has no knowledge of any large well-controlled clinical study the aggregate results of which are inconsistent with or otherwise call into question the results of any clinical study conducted by or on behalf of the Company that are described in the Registration Statement, the General Disclosure Package and the Prospectus or the results of which are referred to in the Registration Statement, the General Disclosure Package and the Prospectus. Except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, the Company has not received any written notices or statements from the FDA or any other governmental agency or authority imposing, requiring, requesting or suggesting a clinical hold, termination, suspension or material modification for or of any clinical or preclinical studies that are described in the Registration Statement, the General Disclosure Package and the Prospectus or the results of which are referred to in the Registration Statement, the General Disclosure Package and the Prospectus. Except as disclosed in the Registration Statement, the General Disclosure Package and the Prospectus, the Company has not received any written notices or statements from the FDA or any other governmental agency, and otherwise has no knowledge or reason to believe, that (i) any investigational new drug application for a potential product of the Company is or has been rejected or determined to be non-approvable or conditionally approvable; and (ii) any license, approval, permit or authorization to conduct any clinical trial of any potential product of the Company has been, will be or may be suspended, revoked, modified or limited.

(vv) The Company has filed in a timely manner all reports required to be filed pursuant to Sections 13(a), 13(e), 14 and 15(d) of the Exchange Act during the preceding 12 months (except to the extent that Section 15(d) requires reports to be filed pursuant to Sections 13(d) and 13(g) of the Exchange Act, which shall be governed by the next clause of this sentence); and the Company has filed in a timely manner all reports required to be filed pursuant to Sections 13(d) and 13(g) of the Exchange Act since February 20, 2009, except where the failure to timely file could not reasonably be expected individually or in the aggregate to have a Material Adverse Effect.

(ww) Neither the Company, nor to its knowledge, any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances and under current rules under the Securities Act that would cause the Offering of the Units to be integrated with prior offerings by the Company for purposes of the Securities Act which would require the registration of any such securities under the Securities Act.

Any certificate signed by or on behalf of the Company and delivered to any Underwriter or to counsel for the Underwriters shall be deemed to be a representation and warranty by the Company to the Underwriters as to the matters covered thereby.

4. *FURTHER AGREEMENTS OF THE COMPANY*. The Company agrees with the Underwriters:

4.1

(a) To prepare the Form S-1 Registration Statement and Prospectus in a form approved by the Representative containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on 430A, 430B and 430C of the Rules and Regulations and to file such Prospectus pursuant to Rule 424(b) of the Rules and Regulations not later than the second (2nd) business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A of the Rules and Regulations; to notify the Representative immediately of the Company's intention to file or prepare any supplement or amendment to any Registration Statement or to the Prospectus and to make no amendment or supplement to the Registration Statement, the General Disclosure Package or to the Prospectus to which the Representative shall reasonably object by notice to the Company after a reasonable period to review; to advise the Representative, promptly after it receives notice thereof, of the time when any amendment to any Registration Statement has been filed or becomes effective or any supplement to the General Disclosure Package or the Prospectus or any amended Prospectus has been filed and to furnish the Representative copies thereof; to file promptly all material required to be filed by the Company with the Commission pursuant to 433(d) or 163(b)(2), as the case may be, of the Rules and Regulations; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) of the Rules and Regulations) is required in connection with the offering or sale of the Units; to advise the Representative promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus, any Issuer Free Writing Prospectus or the Prospectus, of the suspension of the qualification of the Units for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement, the General Disclosure Package or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus, any Issuer Free Writing Prospectus or the Prospectus or suspending any such qualification, and promptly to use its best efforts to obtain the withdrawal of such order.

(b) The Company agrees that if the Units are sold in accordance with the terms of this Agreement, the Representative shall have an irrevocable preferential right for a period of twelve (12) months after the date the Offering is completed to purchase for its account or to sell for the account of the Company, or any subsidiary of or successor to the Company any securities (whether debt or equity, or any combination thereof) of the Company or any such subsidiary or successor which the Company or any such subsidiary or successor may seek to sell whether with or without or through an underwriter, placement agent or broker-dealer and whether pursuant to registration under the Securities Act, or otherwise. The Company and any such subsidiary or successor will consult the Representative with regard to any such proposed financing and will offer the Representative the opportunity to purchase or sell any such securities on terms not more favorable to the Company or any such subsidiary or successor, as the case may be, than it or they can secure elsewhere. If the Representative fails to accept such offer within ten (10) Business Days after the mailing of a notice containing the material terms of the proposed financing proposal by registered mail or overnight courier service addressed to the Representative, then the Representative shall have no further claim or right with respect to the financing proposal contained in such notice. If, however, the terms of such financing proposal are subsequently modified in any material respect, the preferential right referred to herein shall apply to such modified proposal as if the original proposal had not been made. The Representative's failure to exercise its preferential right with respect to any particular proposal shall not affect its preferential rights relative to future proposals. The Company shall have the right, at its option, to designate the Representative as lead underwriter or co-manager of any underwriting group or co-placement agent of any proposed financing in satisfaction of its obligations hereunder, and the Representative shall be entitled to receive as its compensation 50% of the compensation payable to the underwriting or placement agent group when serving as co-manager or co-placement agent and 33% of the compensation payable to the underwriting or placement agent group when serving as co-manager or co-placement agent with respect to a proposed financing in which there are three co-managing or lead underwriters or co-placement agents

(c) The Company represents and agrees that it has not made and will not, make any offer relating to the Units or Representative' Securities that would constitute a "**free writing prospectus**" as defined in Rule 405 of the Rules and Regulations unless the prior written consent of the Representative has been received (each, a "**Permitted Free Writing Prospectus**"); *provided* that the prior written consent of the Representative hereto shall be deemed to have been given in respect of the Issuer Free Writing Prospectus[es], if any, included in Schedule A hereto. The Company represents that it has treated and agrees that it will treat each Permitted Free Writing Prospectus as an Issuer Free Writing Prospectus, comply with the requirements of Rules 164 and 433 of the Rules and Regulations applicable to any Issuer Free Writing Prospectus, including the requirements relating to timely filing with the Commission, legending and record keeping and will not take any action that would result in any Underwriter or the Company being required to file with the Commission pursuant to Rule 433(d) of the Rules and Regulations a free writing prospectus prepared by or on behalf of such Underwriter that such Underwriter otherwise would not have been required to file thereunder.

(d) If at any time when a Prospectus relating to the Units is required to be delivered under the Securities Act, any event occurs or condition exists as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or the Registration Statement, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading, or if for any other reason it is necessary at any time to amend or supplement any Registration Statement or the Prospectus to comply with the Securities Act or the Exchange Act, the Company will promptly notify the Representative or its counsel, and upon the Representative's or its counsel's request, the Company will promptly prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to the Prospectus that corrects such statement or omission or effects such compliance and will deliver to the Underwriters, without charge, such number of copies thereof as such Underwriter may reasonably request. The Company consents to the use of the Prospectus or any amendment or supplement thereto by the Underwriters.

(e) If the General Disclosure Package is being used to solicit offers to buy Units at a time when the Prospectus is not yet available to prospective purchasers and any event shall occur as a result of which, in the judgment of the Company or in the reasonable opinion of counsel for the Underwriters, it becomes necessary to amend or supplement the General Disclosure Package in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or to make the statements therein not conflict with the information contained or incorporated by reference in the Registration Statement then on file and not superseded or modified, or if it is necessary at any time to amend or supplement the General Disclosure Package to comply with any law, the Company promptly will either (i) prepare, file with the Commission (if required) and furnish to the Representative and any dealers an appropriate amendment or supplement to the General Disclosure Package or (ii) prepare and file with the Commission an appropriate filing under the Exchange Act which shall be incorporated by reference in the General Disclosure Package so that the General Disclosure Package as so amended or supplemented will not, in the light of the circumstances under which they were made, be misleading or conflict with the Registration Statement then on file, or so that the General Disclosure Package will comply with law.

(f) If at any time following issuance of an Issuer Free Writing Prospectus there occurred or occurs an event or development as a result of which such Issuer Free Writing Prospectus conflicted or will conflict with the information contained in the Registration Statement, Pricing Prospectus or Prospectus, including any document incorporated by reference therein and any prospectus supplement deemed to be a part thereof and not superseded or modified or included or would include an untrue statement of a material fact or omitted or would omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Company has promptly notified or will promptly notify the Representative so that any use of the Issuer Free Writing Prospectus may cease until it is amended or supplemented and has promptly amended or will promptly amend or supplement, at its own expense, such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission. The foregoing sentence does not apply to statements in or omissions from any Issuer Free Writing Prospectus in reliance upon, and in conformity with, written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for inclusion therein, which information the parties hereto agree is limited to the Underwriter's Information (as defined in Section 17).

(g) To furnish promptly to the Representative and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and of each amendment thereto filed with the Commission, including all consents and exhibits filed therewith.

(h) To deliver promptly to the Representative in New York City such number of the following documents as the Representative shall reasonably request: (i) conformed copies of the Registration Statement as originally filed with the Commission (in each case excluding exhibits), (ii) each Preliminary Prospectus, (iii) any Issuer Free Writing Prospectus, (iv) the Prospectus (the delivery of the documents referred to in clauses (i), (ii), (iii) and (iv) of this paragraph (g) to be made not later than 10:00 A.M., New York time, on the business day following the execution and delivery of this Agreement), (v) conformed copies of any amendment to the Registration Statement (excluding exhibits), (vi) any amendment or supplement to the General Disclosure Package or the Prospectus (the delivery of the documents referred to in clauses (v) and (vi) of this paragraph (g) to be made not later than 10:00 A.M., New York City time, on the business day following the date of such amendment or supplement) and (vii) any document incorporated by reference in the General Disclosure Package or the Prospectus (excluding exhibits thereto) (the delivery of the documents referred to in clause (vi) of this paragraph (g) to be made not later than 10:00 A.M., Eastern time, on the business day following the date of such document)

(i) To make generally available to its stockholders as soon as practicable, but in any event not later than eighteen (18) months after the effective date of each Registration Statement (as defined in Rule 158(c) of the Rules and Regulations), an earnings statement of the Company and any Subsidiary (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158); and to furnish to its stockholders after the end of each fiscal year an annual report (including a balance sheet and statements of income, stockholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants).

(j) To take promptly from time to time such actions as the Representative may reasonably request to qualify the Units and Representative's Securities for offering and sale under the securities or Blue Sky laws of such jurisdictions (domestic or foreign) as the Representative may designate and to continue such qualifications in effect, and to comply with such laws, for so long as required to permit the offer and sale of Units and Representative's Securities in such jurisdictions; *provided* that the Company shall not be obligated to qualify as foreign corporations in any jurisdiction in which they are not so qualified or to file a general consent to service of process in any jurisdiction.

(k) Upon request, during the period of two (2) years from the date hereof, to the extent not available on the Commission's EDGAR system, to deliver to the Underwriters, (i) as soon as they are available, copies of all reports or other communications furnished to stockholders, and (ii) as soon as they are available, copies of any reports and financial statements furnished or filed with the Commission or any national securities exchange or automatic quotation system on which the Company's securities are listed or quoted.

(l) That the Company and each of the successors of the Company will not, for a period of 180 days from the date of the Prospectus, (the "**Lock-Up Period**") without the prior written consent of the Representative, directly or indirectly offer, sell, assign, transfer, pledge, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, other than (i) the Company's sale of the Units, (ii) the issuance of the Representative's Option hereunder, (iii) the issuance of restricted Common Stock or options to acquire Common Stock pursuant to the Company's employee benefit plans, qualified stock option plans or other employee compensation plans as such plans are in existence on the date hereof and described in the Prospectus, (iv) the issuance of Common Stock pursuant to the exercises of options, warrants or rights outstanding on the date hereof, (v) the issuance by the Company of any shares of Common Stock or securities convertible or exchangeable into shares of Common Stock as consideration for mergers, acquisitions, other business combinations, or strategic alliances, occurring after the date of this Agreement; *provided* that each recipient of shares pursuant to this clause (v) agrees that all such shares remain subject to restrictions substantially similar to those contained in this paragraph (k), and (vi) the purchase or sale of the Company's securities pursuant to a plan, contract or instruction that satisfies all of the requirements of Rule 10b5-1(c)(1)(i)(B) that was in effect prior to the date hereof. The Company will cause each executive officer, director, and certain warrant holders listed in Schedule B hereto to furnish to the Representative, prior to the Closing Date, a letter, substantially in the form of Exhibit A hereto (or Exhibit A-1, in the case of a warrant holder). The Company further agrees that without the consent of the Representative, from the date of this Agreement for a period of one hundred twenty (120) days, (or until ____________, 2012, in the case of a warrant holder), the Company shall not relieve any person listed in Schedule B from such person's undertakings in Exhibit A or Exhibit A-1, as the case may be. The Company also agrees that without the consent of the Representative, from the date of this Agreement for a period of ninety (90) days, during such period, the Company will not file any registration statement, preliminary prospectus or prospectus, or any amendment or supplement thereto, under the Securities Act for any such transaction or which registers, or offers for sale, Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, except for a registration statement on Form S-8 relating to employee benefit plans or a registration statement on Form S-4 relating to business combinations.

(m) To supply the Representative with copies of all correspondence to and from, and all documents issued to and by, the Commission in connection with the registration of the Units under the Securities Act or the Registration Statement, any Preliminary Prospectus or the Prospectus, or any amendment or supplement thereto or document incorporated by reference therein.

(n) Prior to the Closing Date and any Option Closing Date, to furnish to the Underwriters, as soon as they have been prepared, copies of any unaudited interim consolidated financial statements of the Company for any periods subsequent to the periods covered by the financial statements appearing in the Registration Statement and the Prospectus.

(o) Prior to the Closing Date and any Option Closing Date, not to issue any press release or other communication directly or indirectly or hold any press conference with respect to the Company, its condition, financial or otherwise, or earnings, business affairs or business prospects (except for routine oral marketing communications in the ordinary course of business and consistent with the past practices of the Company and of which the Representative is notified), without the prior written consent of the Representative, unless in the judgment of the Company and its counsel, and after notification to the Representative, such press release or communication is required by law.

(p) Until the completion of the Offering, the Company will not, and will cause its affiliated purchasers (as defined in Regulation M under the Exchange Act) not to, either alone or with one or more other persons, bid for or purchase, for any account in which it or any of its affiliated purchasers has a beneficial interest, any Units, or attempt to induce any person to purchase any Units; and not to, and to cause its affiliated purchasers not to, make bids or purchase for the purpose of creating actual, or apparent, active trading in or of raising the price of the Units.

(q) Not to take any action prior to the Closing Date and any Option Closing Date which would require the Prospectus to be amended or supplemented pursuant to Section 4(a).

(r) To at all times comply with all applicable provisions of the Sarbanes-Oxley Act in effect from time to time.

(s) To apply the net proceeds from the sale of the Units and the Representative' Securities, if any, in all material respects as set forth in the Registration Statement, the General Disclosure Package and the Prospectus under the heading "**Use of Proceeds.**"

(t) To use its reasonable best efforts to list, subject to notice of issuance, and maintain the listing and quotation of the Units and the Common Stock, and when and if applicable, the Representative's Securities, on the Applicable Trading Market.

(u) To use its reasonable best efforts to assist the Underwriters with any filings with FINRA and obtaining clearance from FINRA as to the amount of compensation allowable or payable to the Underwriters.

(v) To use its reasonable best efforts to do and perform all things required to be done or performed under this Agreement by the Company prior to the Closing Date and any Option Closing Date and to satisfy all conditions precedent to the delivery of the Firm Units and any Additional Units.

5. *PAYMENT OF EXPENSES.*

5.1 The Company agrees to pay, or reimburse if paid by the Underwriters, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated: (a) all filing fees and communication expenses relating to the registration of the Units with the Commission; (b) all COBRADesk filing fees associated with the review of the Offering by FINRA; all fees and expenses relating to the listing of such Units on the Nasdaq Capital Market, the Nasdaq Global Market, Nasdaq Global Select Market or the NYSE Amex and on such other stock exchanges as the Company and the Representative together determine; (c) all fees, expenses and disbursements relating to background checks of the Company's officers and directors in an amount not to exceed $5,000 per individual, in an amount not to exceed $15,000; (d) all fees, expenses and disbursements relating to the registration or qualification of the Units under the "blue sky" securities laws of such states and other jurisdictions as the Representative may reasonably designate (including, without limitation, all filing and registration fees, and the reasonable fees and disbursements of "blue sky" counsel, it being agreed that such fees and expenses will be limited to: (i) if the Offering is commenced on either the Nasdaq Global Market, Nasdaq Global Select Market or the NYSE Amex, the Company will make a payment of $5,000 to such counsel at Closing or (ii) if the Offering is commenced on the Nasdaq Capital Market or on the Over the Counter Bulletin Board, the Company will make a payment of $15,000 to such counsel upon the commencement of "blue sky" work by such counsel and an additional $5,000 at Closing); (e) all fees, expenses and disbursements relating to the registration, qualification or exemption of the Units under the securities laws of such foreign jurisdictions as the Representative may reasonably designate; (f) the costs of all mailing and printing of the underwriting documents (including, without limitation, this Agreement, any Blue Sky Surveys and, if appropriate, any Agreement Among Underwriters, Selected Dealers' Agreement, Underwriters' Questionnaire and Power of Attorney), Registration Statements, Prospectuses and all amendments, supplements and exhibits thereto and as many preliminary and final Prospectuses as Aegis may reasonably deem necessary; (g) the costs and expenses of the public relations firm agreed upon by the Company; (h) the costs of preparing, printing and delivering certificates representing the Units; (i) fees and expenses of the transfer agent for the Common Stock; (j) stock transfer and/or stamp taxes, if any, payable upon the transfer of securities from the Company to the Representative; (k) the costs associated with post-Closing advertising the Offering in the national editions of the Wall Street Journal and New York Times; (l) the costs associated with bound volumes of the public offering materials as well as commemorative mementos and lucite tombstones, each of which the Company or its designee will provide within a reasonable time after the Closing in such quantities as the Representative may reasonably request; (m) the fees and expenses of the Company's accountants; (n) the fees and expenses of the Company's legal counsel and other agents and representatives; (o) the $20,000 cost associated with the use of Ipreo's book building, prospectus tracking and compliance software for the Offering; and (p) up to $20,000 of Aegis' actual accountable "road show" expenses for the Offering.

5.2 The Company further agrees that, in addition to the expenses payable pursuant to Section 5.1, on the Closing Date it will pay to the Representative a non-accountable expense allowance equal to one percent (1%) of the gross proceeds received by the Company from the sale of the Firm Units by deduction from the proceeds of the Offering contemplated herein.

6 . *CONDITIONS TO THE OBLIGATIONS OF THE UNDERWRITERS, AND THE SALE OF THE SHARES*. The respective obligations of the Underwriters hereunder, and the closing of the sale of the Firm Units and any Additional Units, are subject to the accuracy, when made and as of the Applicable Time and on the Closing Date and any Option Closing Date, of the representations and warranties of the Company contained herein, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

6.1

(a) No stop order suspending the effectiveness of the Registration Statement or any part thereof, preventing or suspending the use of any Prospectus, any Preliminary Prospectus, the Prospectus or any Permitted Free Writing Prospectus or any part thereof shall have been issued and no proceedings for that purpose or pursuant to Section 8A under the Securities Act shall have been initiated or threatened by the Commission, and all requests for additional information on the part of the Commission (to be included or incorporated by reference in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the reasonable satisfaction of the Representative; the Rule 462(b) Registration Statement, if any, each Issuer Free Writing Prospectus, if any, and the Prospectus shall have been filed with the Commission within the applicable time period prescribed for such filing by, and in compliance with, the Rules and Regulations and in accordance with Section 4(a), and the Rule 462(b) Registration Statement, if any, shall have become effective immediately upon its filing with the Commission; and FINRA shall have raised no objection to the fairness and reasonableness of the terms of this Agreement or the transactions contemplated hereby.

(b) The Underwriters shall not have discovered and disclosed to the Company on or prior to the Closing Date and any Option Closing Date that the Registration Statement or any amendment or supplement thereto contains an untrue statement of a fact which, in the opinion of counsel for the Underwriters, is material or omits to state any fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading, or that the General Disclosure Package, any Issuer Free Writing Prospectus or the Prospectus or any amendment or supplement thereto contains an untrue statement of fact which, is material or omits to state any fact which, is material and is necessary in order to make the statements, in the light of the circumstances in which they were made, not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of each of this Agreement, the Units, the Common Stock, the Representative's Option, the Representative's Securities, the Registration Statement, the General Disclosure Package, each Issuer Free Writing Prospectus, if any, and the Prospectus and all other legal matters relating to this Agreement and the Representative's Option and the transactions contemplated hereby and thereby shall be reasonably satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) SNR Denton LLP shall have furnished to the Representative such counsel's written opinion, as counsel to the Company, addressed to the Underwriters and dated the Closing Date and any Option Closing Date (if such date is other than the Closing Date), in the form attached hereto as Exhibit B.

SNR Denton LLP shall also have furnished to the Representative a written statement providing certain "10b-5" negative assurances, addressed to the Underwriters and dated the Closing Date and any Option Closing Date (if such date is other than the Closing Date), in the form attached hereto as Exhibit B.

(e) At the time of the execution of this Agreement, the Representative shall have received from Cacciamatta Accountancy Corporation, a letter, addressed to the Underwriters, executed and dated such date, in form and substance satisfactory to the Representative (i) confirming that they are an independent registered public accounting firm with respect to the Company and any Subsidiary within the meaning of the Securities Act and the Rules and Regulations and PCAOB and (ii) stating the conclusions and findings of such firm, of the type ordinarily included in accountants' "comfort letters" to underwriters, with respect to the financial statements and certain financial information contained or incorporated by reference in the Registration Statement, the General Disclosure Package and the Prospectus.

(f) On the effective date of any post-effective amendment to any Registration Statement and on the Closing Date and any Option Closing Date (if such date is other than the Closing Date), the Representative shall have received a letter (the "**Bring-Down Letter**") from Cacciamatta Accountancy Corporation addressed to the Underwriters and dated the Closing Date and any Option Closing Date (if such date is other than the Closing Date) confirming, as of the date of the Bring-Down Letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the General Disclosure Package and the Prospectus, as the case may be, as of a date not more than three (3) business days prior to the date of the Bring-Down Letter), the conclusions and findings of such firm, of the type ordinarily included in accountants' "**comfort letters**" to underwriters, with respect to the financial information and other matters covered by its letter delivered to the Underwriters concurrently with the execution of this Agreement pursuant to paragraph (i) of this Section 6.

(g) The Company shall have furnished to the Representative a certificate, dated the Closing Date and any Option Closing Date (if such date is other than the Closing Date), of its Chairman of the Board, its President or a Vice President and its Vice President, Finance solely in their capacities as officers of the Company, stating that (i) such officers have carefully examined the Registration Statement, the General Disclosure Package, any Permitted Free Writing Prospectus and the Prospectus and, in their opinion, the Registration Statement and each amendment thereto, as of the Applicable Time and as of the date of this Agreement and as of the Closing Date (or any Option Closing Date if such date is other than the Closing Date) did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and the General Disclosure Package, as of the Applicable Time and as of the Closing Date (or any Option Closing Date if such date is other than the Closing Date), any Permitted Free Writing Prospectus as of its date and as of the Closing Date (or any Option Closing Date if such date is other than the Closing Date), the Prospectus and each amendment or supplement thereto, as of the respective date thereof and as of the Closing Date, did not include any untrue statement of a material fact and did not omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances in which they were made, not misleading, (ii) since the effective date of the Registration Statement, no event has occurred which should have been set forth in a supplement or amendment to the Registration Statement, the General Disclosure Package or the Prospectus, (iii) to the best of their knowledge, as of the Closing Date (or any Option Closing Date if such date is other than the Closing Date), the representations and warranties of the Company in this Agreement are true and correct and the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date (or any Option Closing Date if such date is other than the Closing Date), and (iv) there has not been, subsequent to the date of the most recent audited financial statements included or incorporated by reference in the General Disclosure Package, any material adverse change in the financial position or results of operations of the Company or any Subsidiary, or any change or development that, singularly or in the aggregate, would involve a material adverse change or a prospective material adverse change, in or affecting the condition (financial or otherwise), results of operations, business, assets or prospects of the Company or any Subsidiary, except as set forth in the Prospectus.

(h) Since the date of the latest audited financial statements included in the General Disclosure Package or incorporated by reference in the General Disclosure Package as of the date hereof, (i) neither the Company nor any Subsidiary shall have sustained any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth in the General Disclosure Package, and (ii) there shall not have been any change in the capital stock or long-term debt of the Company nor any Subsidiary, or any change, or any development involving a prospective change, in or affecting the business, general affairs, management, financial position, stockholders' equity or results of operations of the Company and any Subsidiary, otherwise than as set forth in the Registration Statement, the Prospectus or the General Disclosure Package, the effect of which, in any such case described in clause (i) or (ii) of this paragraph (k), is, in the judgment of the Representative, so material and adverse as to make it impracticable or inadvisable to proceed with the sale or delivery of the Units and the Representative's Option on the terms and in the manner contemplated in the General Disclosure Package.

(i) No action shall have been taken and no law, statute, rule, regulation or order shall have been enacted, adopted or issued by any governmental agency or body which would prevent the issuance or sale of the Units or the Representative's Securities or materially and adversely affect the business or operations of the Company or any Subsidiary; taken as a whole, and no injunction, restraining order or order of any other nature by any federal or state court of competent jurisdiction shall have been issued which would prevent the issuance or sale of the Units or the Representative's Securities or materially and adversely affect or potentially materially and adversely affect the business or operations of the Company or any Subsidiary.

(j) Subsequent to the execution and delivery of this Agreement, there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, Applicable Trading Market or the NYSE Amex or in the over-the-counter market, or trading in any securities of the Company on any exchange or in the over-the-counter market, shall have been suspended or materially limited, or minimum or maximum prices or maximum range for prices shall have been established on any such exchange or such market by the Commission, by such exchange or market or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by Federal or state authorities or a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States, (iii) the United States shall have become engaged in hostilities, or the subject of an act of terrorism, or there shall have been an outbreak of or escalation in hostilities involving the United States, or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) as to make it, in the judgment of the Representative, impracticable or inadvisable to proceed with the sale or delivery of the Units on the terms and in the manner contemplated in the General Disclosure Package and the Prospectus.

(k) The Applicable Trading Market shall have approved the Units for inclusion therein to the extent required, subject only to official notice of issuance.

(l) The Representative shall have received the written agreements, substantially in the form of Exhibit A hereto, of the persons listed in Schedule B to this Agreement.

(m) At Closing, the Company shall have delivered the executed the Representative's Option to the Representative in the form of Exhibit C hereto, which shall be issued in the name or names and in such authorized denominations as the Representative may request.

(n) The Underwriters shall have received clearance from FINRA as to the amount of compensation allowable or payable to the Underwriters as described in the Pricing Prospectus.

(o) The Company shall have prepared and filed with the Commission a Current Report on Form 8-K with respect to the transactions contemplated hereby, including as an exhibit thereto this Agreement and any other documents relating thereto.

(p) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act at or before 5:30 p.m., Eastern time, on the second full business day after the date of this Agreement (or such earlier time as may be required under the Securities Act).

(q) Prior to the Closing Date and any Option Closing Date (if such date is other than the Closing Date), the Company shall have furnished to the Underwriters such further information, opinions, comfort letter, certificates (including a Secretary's Certificate), letters or such other documents as the Representative shall have reasonably requested.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to counsel for the Underwriters.

7. *INDEMNIFICATION AND CONTRIBUTION.*

7.1

(a) The Company shall indemnify and hold harmless each Underwriter, its affiliates and each of its and their respective directors, officers, members, employees, Representative and agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act of or Section 20 of the Exchange Act (collectively the "**Underwriter Indemnified Parties,**" and each a "**Underwriter Indemnified Party**") against any loss, claim, damage, expense or liability whatsoever (or any action, investigation or proceeding in respect thereof), joint or several, to which such Underwriter Indemnified Party may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, expense, liability, action, investigation or proceeding arises out of or is based upon (A) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, any Issuer Free Writing Prospectus, any "**issuer information**" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto or document incorporated by reference therein, (B) the omission or alleged omission to state in any Preliminary Prospectus, any Issuer Free Writing Prospectus, any "issuer information" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto or document incorporated by reference therein, a material fact required to be stated therein or necessary to make the statements therein not misleading or (C) any material breach of the representations and warranties of the Company contained herein or failure of the Company to perform its obligations hereunder or pursuant to any law, any act or failure to act, or any alleged act or failure to act, by the Underwriters in connection with, or relating in any manner to, the Units, the Representative's Securities or the Offering, and which is included as part of or referred to in any loss, claim, damage, expense, liability, action, investigation or proceeding arising out of or based upon matters covered by subclause (A), (B) or (C) above of this Section 7(a) (*provided* that the Company shall not be liable in the case of any matter covered by this subclause (C) to the extent that it is determined in a final judgment by a court of competent jurisdiction that such loss, claim, damage, expense or liability resulted directly from any such act or failure to act undertaken or omitted to be taken by such Underwriter through its gross negligence or willful misconduct), and shall reimburse the Underwriter Indemnified Party promptly upon demand for any legal fees or other expenses reasonably incurred by that Underwriter Indemnified Party in connection with investigating, or preparing to defend, or defending against, or appearing as a third party witness in respect of, or otherwise incurred in connection with, any such loss, claim, damage, expense, liability, action, investigation or proceeding, as such fees and expenses are incurred; *provided*, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, expense or liability arises out of or is based upon an untrue statement or alleged untrue statement in, or omission or alleged omission from any Preliminary Prospectus, any Registration Statement or the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus made in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for use therein, which information the parties hereto agree is limited to the Underwriters' Information (as defined in Section 17). This indemnity agreement is not exclusive and will be in addition to any liability, which the Company might otherwise have and shall not limit any rights or remedies which may otherwise be available at law or in equity to each Underwriter Indemnified Party.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company and its affiliates, directors, its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (collectively the "**Company Indemnified Parties**" and each a "**Company Indemnified Party**") against any loss, claim, damage, expense or liability whatsoever (or any action, investigation or proceeding in respect thereof), joint or several, to which such Company Indemnified Party may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, expense, liability, action, investigation or proceeding arises out of or is based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, any Issuer Free Writing Prospectus, any "**issuer information**" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto, or (ii) the omission or alleged omission to state in any Preliminary Prospectus, any Issuer Free Writing Prospectus, any "**issuer information**" filed or required to be filed pursuant to Rule 433(d) of the Rules and Regulations, any Registration Statement or the Prospectus, or in any amendment or supplement thereto, a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through the Representative by or on behalf of any Underwriter specifically for use therein, which information the parties hereto agree is limited to the Underwriters' Information as defined in Section 17, and shall reimburse the Company for any legal or other expenses reasonably incurred by such party in connection with investigating or preparing to defend or defending against or appearing as third party witness in connection with any such loss, claim, damage, liability, action, investigation or proceeding, as such fees and expenses are incurred. Notwithstanding the provisions of this Section 7(b), in no event shall any indemnity by an Underwriter under this Section 7(b) exceed the total discount and commission received by such Underwriter in connection with the Offering.

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party under this Section 7, notify such indemnifying party in writing of the commencement of that action; *provided*, *however*, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 7 except to the extent it has been materially prejudiced by such failure; and, *provided*, *further*, that the failure to notify an indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 7. If any such action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense of such action with counsel reasonably satisfactory to the indemnified party (which counsel shall not, except with the written consent of the indemnified party, be counsel to the indemnifying party). After notice from the indemnifying party to the indemnified party of its election to assume the defense of such action, except as provided herein, the indemnifying party shall not be liable to the indemnified party under Section 7 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense of such action other than reasonable costs of investigation; *provided, however,* that any indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense of such action but the fees and expenses of such counsel (other than reasonable costs of investigation) shall be at the expense of such indemnified party unless (i) the employment thereof has been specifically authorized in writing by the Company in the case of a claim for indemnification under Section 7(a) or Section 2.5 or the Representative in the case of a claim for indemnification under Section 7(b), (ii) such indemnified party shall have been advised by its counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the indemnifying party, or (iii) the indemnifying party has failed to assume the defense of such action and employ counsel reasonably satisfactory to the indemnified party within a reasonable period of time after notice of the commencement of the action or the indemnifying party does not diligently defend the action after assumption of the defense, in which case, if such indemnified party notifies the indemnifying party in writing that it elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of (or, in the case of a failure to diligently defend the action after assumption of the defense, to continue to defend) such action on behalf of such indemnified party and the indemnifying party shall be responsible for legal or other expenses subsequently incurred by such indemnified party in connection with the defense of such action; *provided*, *however*, that the indemnifying party shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys at any time for all such indemnified parties (in addition to any local counsel), which firm shall be designated in writing by the Representative if the indemnified parties under this Section 7 consist of any Underwriter Indemnified Party or by the Company if the indemnified parties under this Section 7 consist of any Company Indemnified Parties. Subject to this Section 7(c), the amount payable by an indemnifying party under Section 7 shall include, but not be limited to, (x) reasonable legal fees and expenses of counsel to the indemnified party and any other expenses in investigating, or preparing to defend or defending against, or appearing as a third party witness in respect of, or otherwise incurred in connection with, any action, investigation, proceeding or claim, and (y) all amounts paid in settlement of any of the foregoing. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of judgment with respect to any pending or threatened action or any claim whatsoever, in respect of which indemnification or contribution could be sought under this Section 7 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party in form and substance reasonably satisfactory to such indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party. Subject to the provisions of the following sentence, no indemnifying party shall be liable for settlement of any pending or threatened action or any claim whatsoever that is effected without its written consent (which consent shall not be unreasonably withheld or delayed), but if settled with its written consent, if its consent has been unreasonably withheld or delayed or if there be a judgment for the plaintiff in any such matter, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. In addition, if at any time an indemnified party shall have requested that an indemnifying party reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated herein effected without its written consent if (i) such settlement is entered into more than forty-five (45) days after receipt by such indemnifying party of the request for reimbursement, (ii) such indemnifying party shall have received notice of the terms of such settlement at least thirty (30) days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(d) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under Section 7(a) or Section 7(b), then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid, payable or otherwise incurred by such indemnified party as a result of such loss, claim, damage, expense or liability (or any action, investigation or proceeding in respect thereof), as incurred, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and each of the Underwriters on the other hand from the offering of the Units, or (ii) if the allocation provided by clause (i) of this Section 7(d) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) of this Section 7(d) but also the relative fault of the Company on the one hand and the Underwriters on the other with respect to the statements, omissions, acts or failures to act which resulted in such loss, claim, damage, expense or liability (or any action, investigation or proceeding in respect thereof) as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Units purchased under this Agreement (before deducting expenses) received by the Company bear to the total underwriting discount and commissions received by the Underwriters in connection with the Offering, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company on the one hand and the Underwriters on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement, omission, act or failure to act; provided that the parties hereto agree that the written information furnished to the Company through the Representative by or on behalf of any Underwriter for use in any Preliminary Prospectus, any Registration Statement or the Prospectus, or in any amendment or supplement thereto, consists solely of the Underwriters' Information as defined in Section 17. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 7(d) were to be determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage, expense, liability, action, investigation or proceeding referred to above in this Section 7(d) shall be deemed to include, for purposes of this Section 7(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating, preparing to defend or defending against or appearing as a third party witness in respect of, or otherwise incurred in connection with, any such loss, claim, damage, expense, liability, action, investigation or proceeding. Notwithstanding the provisions of this Section 7(d), no Underwriter shall be required to contribute any amount in excess of the total discount and commission received by such Underwriter in connection with the Offering less the amount of any damages which such Underwriter has otherwise paid or become liable to pay by reason of any untrue or alleged untrue statement, omission or alleged omission, act or alleged act or failure to act or alleged failure to act. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 7(d) are several and in proportion to their respective underwriting obligations and not joint.

8 . *TERMINATION*. The obligations of the Underwriters hereunder may be terminated by the Representative, in its absolute discretion by notice given to the Company prior to delivery of and payment for the Units if, prior to that time, any of the events described in Sections 6(h), 6(i) or 6(j) have occurred or if the Underwriters shall decline to purchase the Units for any reason permitted under this Agreement.

9 . *EFFECT OF TERMINATION*. Notwithstanding anything to the contrary in this Agreement, if (a) this Agreement shall have been terminated pursuant to Section 8, (b) the Company shall fail to tender the Units for delivery to the Underwriters for any reason not permitted under this Agreement, (c) the Underwriters shall decline to purchase the Units for any reason permitted under this Agreement or (d) the sale of the Units is not consummated because any condition to the obligations of the Underwriters set forth herein is not satisfied or because of the refusal, inability or failure on the part of the Company to perform any agreement herein or to satisfy any condition or to comply with the provisions hereof, then in addition to the payment of amounts in accordance with Section 5 and out of pocket expenses (to the extent such expenses are actually incurred by Aegis), the provisions of Section 7 shall not be in any way affected by, such election or termination or failure to carry out the terms of this Agreement or any part hereof.

10. *EFFECTIVENESS; DEFAULTING UNDERWRITERS*. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

If, on the Closing Date or an Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase the Units that it has or they have agreed to purchase hereunder on such date, and the aggregate number of Units which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of Units to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the number of Firm Units set forth opposite their respective names in Schedule C bears to the aggregate number of Firm Units set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Units which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; *provided* that in no event shall the number of Units that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 10 by an amount in excess of one-ninth of such number of Units without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Firm Units and the aggregate number of Firm Units with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Units to be purchased on such date, and arrangements satisfactory to you and the Company for the purchase of such Firm Units are not made within thirty-six (36) hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or the Company. In any such case, either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven (7) days, in order that the required changes, if any, in the Registration Statement, in the Pricing Prospectus, in the Prospectus or in any other documents or arrangements may be affected. If, on an Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Units and the aggregate number of Additional Units with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Units to be purchased on such Option Closing Date, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase the Additional Units to be sold on such Option Closing Date or (i) purchase not less than the number of Additional Units that such non-defaulting Underwriters would have been obligated to purchase in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

11. *ABSENCE OF FIDUCIARY RELATIONSHIP*. The Company acknowledges and agrees that:

11.1

(a) each Underwriter's responsibility to the Company is solely contractual in nature, each Underwriter has been retained solely to act as an underwriter in connection with the Offering and no fiduciary, advisory or agency relationship between the Company and the Underwriters has been created in respect of any of the transactions contemplated by this Agreement, irrespective of whether Aegis Capital Corp. has advised or is advising the Company on other matters;

(b) the price of the Units and the Representative' Securities set forth in this Agreement was established by the Company following discussions and arms-length negotiations with the Representative, and the Company is capable of evaluating and understanding, and understands and accepts, the terms, risks and conditions of the transactions contemplated by this Agreement;

(c) it has been advised that Aegis Capital Corp. and its respective affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company and that the Underwriters have no obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship; and

(d) it waives, to the fullest extent permitted by law, any claims it may have against the Underwriters for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that the Underwriters shall have no liability (whether direct or indirect) to the Company in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including stockholders, employees or creditors of the Company.

12. *SUCCESSORS; PERSONS ENTITLED TO BENEFIT OF AGREEMENT.* This Agreement shall inure to the benefit of and be binding upon the several Underwriters, the Company, and their respective successors and assigns. This Agreement shall also inure to the benefit of Aegis Capital Corp., the Underwriters, and each of their respective successors and assigns, which shall be third party beneficiaries hereof. Notwithstanding the foregoing, the determination as to whether any condition in Section 6 hereof shall have been satisfied, and the waiver of any condition in Section 6 hereof, may be made by the Representative in their sole discretion, and any such determination or waiver shall be binding on each of the Underwriters and shall not require the consent of any Underwriter. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, other than the persons mentioned in the preceding sentences, any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person; except that the representations, warranties, covenants, agreements and indemnities of the Company contained in this Agreement shall also be for the several benefit of the Underwriter Indemnified Parties and the indemnities of the several Underwriters shall be for the benefit of the Company Indemnified Parties. It is understood that each Underwriter's responsibility to the Company is solely contractual in nature and the Underwriters do not owe the Company, or any other party, any fiduciary duty as a result of this Agreement.

13. *SURVIVAL OF INDEMNITIES, REPRESENTATIONS, WARRANTIES, ETC.* The respective indemnities, covenants, agreements, representations, warranties and other statements of the Company and the Underwriters, as set forth in this Agreement or made by them respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter, the Company or any person controlling any of them and shall survive delivery of and payment for the Units. Notwithstanding any termination of this Agreement, including without limitation any termination pursuant to Section 8, the indemnity, reimbursement and contribution agreements contained in Sections 7 and 9 and the covenants, representations, warranties set forth in this Agreement shall not terminate and shall remain in full force and effect at all times.

14. *NOTICES*. All statements, requests, notices and agreements hereunder shall be in writing, and:

14.1

(a) if to the Underwriters, shall be mailed (registered or certified mail, return receipt requested), personally delivered or sent by facsimile transmission and confirmed and shall be deemed given when so delivered or faxed and confirmed or if mailed, two (2) days after such mailing to Aegis Capital Corp., 810 Seventh Avenue, 11th Floor, New York, New York 10019, Attention: David Bocchi, Managing Director of Investment Banking, Fax: (212) 813-1047 with a copy to David Danovitch Esq. c/o Gersten Savage LLP, 600 Lexington Ave. New York, NY 10022, Fax: (212) 980-5192; and

(b) if to the Company, shall be mailed (registered or certified mail, return receipt requested), personally delivered or sent by facsimile transmission and confirmed and shall be deemed given when so delivered or faxed and confirmed or if mailed, two (2) days after such mailing to CNS Response, Inc., 85 Enterprise, Suite 410Aliso Viejo, CA 9265 Attention: Chief Executive Officer and Chief Financial Officer, Fax: (866) 294-2611 with a copy to Jeffrey Baumel, Esq. c/o SNR Denton, LLP, Two World Financial Center New York, New York 10281, Fax: (212) 202-7735.

provided, *however*, that any notice to the Underwriters pursuant to Section 7 shall be delivered or sent by mail, email or facsimile transmission to the Representative at its address set forth in its acceptance communication to the Underwriters, which address will be supplied to any other party hereto by the Representative upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof, except that any such statement, request, notice or agreement delivered or sent by email shall take effect at the time of confirmation of receipt thereof by the recipient thereof.

15. *DEFINITION OF CERTAIN TERMS*. For purposes of this Agreement, (a) "business day" means any day on which the New York Stock Exchange, Inc. is open for trading, (b) "Affiliate" means any person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with such person and (c) "knowledge" means the knowledge of the directors and officers of the Company after reasonable inquiry.

16. *GOVERNING LAW, AGENT FOR SERVICE AND JURISDICTION*. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, including without limitation Section 5-1401 of the New York General Obligations Law. No legal proceeding may be commenced, prosecuted or continued in any court other than the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, which courts shall have jurisdiction over the adjudication of such matters, and the Company and the Underwriters each hereby consent to the jurisdiction of such courts and personal service with respect thereto. The Company and the Underwriters each hereby waive all right to trial by jury in any legal proceeding (whether based upon contract, tort or otherwise) in any way arising out of or relating to this Agreement. The Company agrees that a final judgment in any such legal proceeding brought in any such court shall be conclusive and binding upon the Company and the Underwriters and may be enforced in any other courts in the jurisdiction of which the Company is or may be subject, by suit upon such judgment.

17. *UNDERWRITERS' INFORMATION*. The parties hereto acknowledge and agree that, for all purposes of this Agreement, the Underwriters' Information consists solely of the information set forth under the subheadings "Discretionary Accounts", "Electronic Offer, Sale and Distribution of Units", and "Stabilization", plus the table showing the number of Units to be purchased by each Underwriter, in each case under the section of the Prospectus titled "Underwriting."

18. *PARTIAL UNENFORCEABILITY*. The invalidity or unenforceability of any section, paragraph, clause or provision of this Agreement shall not affect the validity or enforceability of any other section, paragraph, clause or provision hereof. If any section, paragraph, clause or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

19. *GENERAL*. This Agreement constitutes the entire agreement of the parties to this Agreement and supersedes all prior written or oral and all contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof. In this Agreement, the masculine, feminine and neuter genders and the singular and the plural include one another. The section headings in this Agreement are for the convenience of the parties only and will not affect the construction or interpretation of this Agreement. This Agreement may be amended or modified, and the observance of any term of this Agreement may be waived, only by a writing signed by the Company and the Underwriters. Notwithstanding anything to the contrary set forth herein, it is understood and agreed by the parties hereto that all other terms and conditions of that certain engagement letter between the Company and Aegis Capital Corp., dated November 4, 2011, shall remain in full force and effect.

20. *RESEARCH ANALYST INDEPENDENCE.* The Company acknowledges that each Underwriter's research analysts and research departments are required to be independent from its investment banking division and are subject to certain regulations and internal policies, and that such Underwriter's research analysts may hold views and make statements or investment recommendations and/or publish research reports with respect to the Company and/or the offering that differ from the views of their investment banking division. The Company acknowledges that each Underwriter is a full service securities firm and as such from time to time, subject to applicable securities laws, rules and regulations, may effect transactions for its own account or the account of its customers and hold long or short positions in debt or equity securities of the Company; *provided, however,* that nothing in this Section 20 shall relieve either Underwriter of any responsibility or liability it may otherwise bear in connection with activities in violation of applicable securities laws, rules or regulations.

21. *COUNTERPARTS*. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument and such signatures may be delivered by facsimile or email.

If the foregoing is in accordance with your understanding of the agreement between the Company and the Underwriters, kindly indicate your acceptance in the space provided for that purpose below.

Very truly yours,

CNS RESPONSE, INC.

By: ______________________________
Name:
Title:

Confirmed as of the date first above mentioned, on behalf of itself and the Underwriters listed in Schedule C hereto:

AEGIS CAPITAL CORP.

By: ______________________________
Name:
Title:

SCHEDULE A

PRICING INFORMATION

Number of Firm Units to be sold: _______

Public Offering Price per Share: $_____

Underwriting Discount per Share (7% of the Price per Share): $0.____

Underwriting Non-accountable expense allowance (1% of the Price Per Share): $0.____

Proceeds to Company per Units (before expenses): $_____ per Share

PERMITTED FREE WRITING PROSPECTUSES

NONE

SCHEDULE B

LIST OF EXECUTIVE OFFICERS, DIRECTORS, STOCKHOLDERS AND WARRANT HOLDERS EXECUTING LOCK-UP AGREEMENTS

Officers, Directors and Stockholders (signing Exhibit A):
David B. Jones
George Carpenter
John Pappajohn
Henry T. Harbin, M.D
George Kallins, M.D.
Zachary McAdoo
Paul Buck
Daniel Hoffman, M.D.
Michael Darkoch
Aegis Capital Corp.

SCHEDULE C

Underwriters

Underwriter	Total Number of Firm Units to be Purchased	Number of Additional Units to be Purchased if the Over-Allotment Option is Fully Exercised
Aegis Capital Corp.		
Cantor Fitzgerald & Co.		
Noble Financial Capital Markets		
Ascendient Capital Markets LLC		
TOTAL		

Exhibit 4.5

CNS RESPONSE, INC.

FORM OF WARRANT AGREEMENT

WARRANT AGREEMENT (this "Agreement") entered into as of May ___, 2012 (the "Issuance Date"), between CNS Response, Inc., a Delaware corporation, with offices at 85 Enterprise, Suite 410, Aliso Viejo, CA 92656 (the " Company "), and American Stock Transfer & Trust Company, with offices at 59 Maiden Lane, New York, NY 10038 (the "Warrant Agent ").

WHEREAS, the Company is engaged in a public offering (the "Offering") of units (the "Units") with each unit consisting of two common voting shares, par value $0.001 per share (the "Common Stock"), and one warrant (the "Warrants"), with each such Warrant evidencing the right of the holder thereof to purchase one share of Common Stock, for $[___], subject to adjustment as described herein;

WHEREAS, the Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (File No. 333-173934; as the same may be amended from time to time, the "Registration Statement ") for the registration, under the Securities Act of 1933, as amended (the "Securities Act"), of, among other securities, the Units, the Warrants and shares of Common Stock issuable upon exercise of the Warrants (the " Warrant Shares"); and such Registration Statement was declared effective by the Commission on _______;

WHEREAS, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing to so act, in connection with the issuance, registration, transfer, exchange and exercise of the Warrants;

WHEREAS, the Company desires to provide for the form and provisions of the Warrants, the terms upon which they shall be issued and exercised, and the respective rights, limitation of rights and immunities of the Company, the Warrant Agent, and the holders of the Warrants (each, a "Holder"); and

WHEREAS, all acts and things have been done and performed which are necessary to make the Warrants, when executed on behalf of the Company and countersigned by or on behalf of the Warrant Agent, as provided herein, the valid and legally binding obligations of the Company, and to authorize the execution and delivery of this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

1. Appointment of Warrant Agent. The Company hereby appoints the Warrant Agent to act as agent for the Company for the Warrants, and the Warrant Agent hereby accepts such appointment and agrees to perform the same in accordance with the terms and conditions set forth in this Agreement.

2. Warrants.

2.1 Form of Warrant. Each Warrant shall be issued in registered form only, shall be in substantially the form of Exhibit A hereto, the provisions of which are incorporated herein and shall be signed by, or bear the facsimile signature of, the Chief Executive Officer, President, Acting Chief Financial Officer, Chief Financial Officer, Chief Operating Officer or Secretary of the Company, and shall bear a facsimile of the Company's seal. In the event the person whose facsimile signature has been placed upon any Warrant shall have ceased to serve in the capacity in which such person signed the Warrant before such Warrant is issued, such Warrant may be issued with the same effect as if he or she had not ceased to be in such capacity at the date of issuance. All of the Warrants shall initially be represented by one or more book-entry certificates (each, a "Book-Entry Warrant Certificate").

2.2 Effect of Countersignature. Unless and until countersigned by the Warrant Agent pursuant to this Agreement, a Warrant shall be invalid and of no effect and may not be exercised by a Holder.

2.3 Registration.

2.3.1 Warrant Register. The Warrant Agent shall maintain books ("Warrant Register"), for the registration of the original issuance and the registration of any transfer of the Warrants. Upon the initial issuance of the Warrants, the Warrant Agent shall issue and register the Warrants in the names of the respective Holders in such denominations and otherwise in accordance with instructions delivered to the Warrant Agent by the Company. To the extent the Warrants are "DTC Eligible" as of the Issuance Date, all of the Warrants shall be represented by one or more Book-Entry Warrant Certificates deposited with the Depository Trust Company (the " Depository") and registered in the name of Cede & Co., a nominee of the Depository. Ownership of beneficial interests in the Book-Entry Warrant Certificates shall be shown on, and the transfer of such ownership shall be effected through, records maintained (i) by the Depository or its nominee for each Book-Entry Warrant Certificate; (ii) by institutions that have accounts with the Depository (such institution, with respect to a Warrant in its account, a "Participant"); or (iii) directly on the book-entry records of the Warrant Agent with respect only to owners of beneficial interests that represent such direct registration.

If the Warrants are not "DTC Eligible" as of the Issuance Date or the Depository subsequently ceases to make its book-entry settlement system available for the Warrants, the Company may instruct the Warrant Agent to make other arrangements for book-entry settlement within ten (10) Business Days after the Depository ceases to make its book-entry settlement available. In the event that the Company does not make alternative arrangements for book-entry settlement within ten (10) Business Days or the Warrants are not eligible for, or it is no longer necessary to have the Warrants available in, book-entry form, the Warrant Agent shall provide written instructions to the Depository to deliver to the Warrant Agent for cancellation each Book-Entry Warrant Certificate, and the Company shall instruct the Warrant Agent to deliver to the Depository definitive Warrant Certificates in physical form evidencing such Warrants. Such definitive Warrant Certificates shall be in substantially the form attached hereto as Exhibit A.

As used herein, the term "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 or executive order to remain closed.

2.3.2 Beneficial Owner; Registered Holder. Prior to due presentment for registration of transfer of any Warrant, the Company and the Warrant Agent may deem and treat the person in whose name such Warrant shall be registered upon the Warrant Register ("registered holder") as the absolute owner of such Warrant and of each Warrant represented thereby (notwithstanding any notation of ownership or other writing on the Warrant Certificate made by anyone other than the Company or the Warrant Agent) for the purpose of any exercise thereof and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary. Any person in whose name ownership of a beneficial interest in the Warrants evidenced by a Book-Entry Warrant Certificate is recorded in the records maintained by the Depository or its nominee shall be deemed the "beneficial owner" thereof; *provided* , that all such beneficial interests shall be held through a Participant which shall be the registered holder of such Warrants. As used herein, the term "Holder" refers only to a registered holder of the Warrants.

2.4 Detachability of Warrants. The Units will not be separable into the underlying Common Stock and Warrants until the earlier of (i) the exercise in full of the over-allotment option granted to the underwriters in connection with the Offering (the "Underwriters") and (ii) forty-five (45) calendar days from the date of the final prospectus supplement in connection with the Offering (the "Initial Separation Date"). Following the Initial Separation Date, the Units will be separable only upon the request of a Holder.

2.5 Uncertificated Warrants. Notwithstanding the foregoing and anything else herein to the contrary, the Warrants may be issued in uncertificated form.

3. Terms and Exercise of Warrants.

3.1 Exercise Price. Each Warrant shall, when countersigned by the Warrant Agent, entitle the Holder, subject to the provisions of such Warrant and of this Agreement, to purchase from the Company the number of shares of Common Stock stated therein, at a price of $[___] per whole share, subject to the subsequent adjustments provided in Section 4 hereof. The term "Exercise Price" as used in this Agreement refers to the price per share at which Common Stock may be purchased at the time a Warrant is exercised.

3.2 Duration of Warrants. The Warrants may be exercised only after the separation of the Units, as described above in Section 2.4. Following the separation of a Unit, the underlying Warrant may be exercised at any time during the period (the "Exercise Period") beginning on the date of such separation and terminating at ___ (time), New York City time, on ___________ (the " Expiration Date "). Each Warrant not exercised on or before the Expiration Date shall become null and void, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at the close of business on the Expiration Date.

3.3 Exercise of Warrants.

3.3.1 Exercise and Payment. A Holder may exercise a Warrant in whole, but not in part, by delivering, not later than _____ (time), New York City time, on any Business Day during the Exercise Period (the "Exercise Date") to the Warrant Agent at its corporate trust department (i) the Warrant Certificate evidencing the Warrants to be exercised or, in the case of a Book-Entry Warrant Certificate, the Warrants to be exercised shown on the records of the Depository (the "Book-Entry Warrants") to an account of the Warrant Agent at the Depository designated for such purpose in writing by the Warrant Agent to the Depository from time to time; (ii) an election to purchase the Warrant Shares underlying the Warrants to be exercised (an "Election to Purchase"), properly completed and executed by the Holder on the reverse of the Warrant Certificate or, in the case of a Book-Entry Warrant Certificate, properly delivered by the Participant in accordance with the Depository's procedures; and (iii) the Exercise Price for each Warrant to be exercised in lawful money of the United States of America by certified or official bank check or a bank wire transfer in immediately available funds, in each case payable to the order of the Company.

If any of: (a) the Warrant Certificate or the Book-Entry Warrants; (b) the Election to Purchase; or (c) the Exercise Price therefor, is received by the Warrant Agent after ____ (time), New York City time, on the specified Exercise Date, the Warrants shall be deemed to be received and exercised on the Business Day next succeeding the Exercise Date. If the date specified as the Exercise Date is not a Business Day, the Warrants shall be deemed to be received and exercised on the next succeeding day that is a Business Day. If the Warrants are received or deemed to be received after the Expiration Date, the exercise thereof shall be null and void and any funds delivered to the Warrant Agent shall be returned to the Holder. In no event will interest accrue on funds deposited with the Warrant Agent in respect of an exercise or attempted exercise of Warrants. The validity of any exercise of Warrants shall be determined by the Company, in its sole discretion, and such determination shall be final and binding upon the Holder and the Warrant Agent. Neither the Company nor the Warrant Agent shall have any obligation to inform a Holder of the invalidity of any exercise of any Warrants.

The Warrant Agent promptly shall provide to the Company all certified or official bank checks received by it in payment of the Exercise Price and shall advise the Company via telephone at the end of each day on which funds for the exercise of the Warrants are received of such amounts. The Warrant Agent shall promptly confirm such telephonic advice to the Company in writing.

3.3.2 Issuance of Certificates. The Warrant Agent shall, by _____ (time), New York City time, on the Business Day following the Exercise Date of any Warrant, advise the Company or the transfer agent and registrar in respect of (a) the number of Warrant Shares issuable upon such exercise in accordance with the terms and conditions of this Agreement; (b) the instructions of each Holder with respect to delivery of the Warrant Shares issuable upon such exercise, and the delivery of definitive Warrant Certificates, as appropriate, evidencing the balance, if any, of the Warrants remaining after such exercise; (c) in case of a Book-Entry Warrant Certificate, the notation that shall be made to the records maintained by the Depository, its nominee for each Book-Entry Warrant Certificate, or a Participant, as appropriate, evidencing the balance, if any, of the Warrants remaining after such exercise; and (d) such other information as the Company or such transfer agent and registrar shall reasonably require.

The Company shall, by ____ (time), New York City time, on the third Business Day next succeeding the Exercise Date of any Warrant and the clearance of the funds in payment of the aggregate Exercise Price, execute, issue, and deliver to the Warrant Agent, the Warrant Shares to which such Holder is entitled, in fully registered form, registered in such name or names as may be directed by such Holder. Upon receipt of such Warrant Shares, the Warrant Agent shall, by ___ (time), New York City time, on the third Business Day next succeeding such Exercise Date, transmit such Warrant Shares to, or upon the order of, such Holder.

In lieu of delivering physical certificates representing the Warrant Shares issuable upon exercise of any Warrants (*provided* the Company's transfer agent is participating in the Depository's Fast Automated Securities Transfer program), the Company shall use its commercially reasonable efforts to cause its transfer agent to electronically transmit the Warrant Shares issuable upon exercise to the Depository by crediting the account of the Depository or of the Participant, as the case may be, through its Deposit Withdrawal Agent Commission system. The time periods for delivery described in the immediately preceding paragraph shall apply to the electronic transmittals described herein.

3.3.3 Valid Issuance. All shares of Common Stock issued upon the proper exercise of any Warrants in conformity with this Agreement shall be duly authorized, validly issued, fully paid and nonassessable.

3.3.4 No Fractional Exercise. Warrants may be exercised only into whole numbers of Warrant Shares. No fractional Warrant Shares shall be issued upon the exercise of a Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number. If fewer than all of the Warrants evidenced by a Warrant Certificate are exercised, a new Warrant Certificate for the number of unexercised Warrants remaining shall be executed by the Company and countersigned by the Warrant Agent, as provided in Section 2 of this Agreement, and delivered to the Holder at the address specified on the books of the Warrant Agent or as otherwise specified by such Holder. If fewer than all of the Warrants evidenced by a Book-Entry Warrant Certificate are exercised, a notation shall be made to the records maintained by the Depository, its nominee for each Book-Entry Warrant Certificate, or a Participant, as appropriate, evidencing the balance of the Warrants remaining after such exercise.

3.3.5 No Transfer Taxes. The Company shall not be required to pay any stamp or other tax or governmental charge required to be paid in connection with any transfer involved in the issue of the Warrant Shares upon the exercise of Warrants; and in the event that any such transfer is involved, the Company shall not be required to issue or deliver any Warrant Shares until such tax or other charge shall have been paid or it has been established to the Company's satisfaction that no such tax or other charge is due.

3.3.6 Date of Issuance. Each person in whose name any such certificate for shares of Common Stock is issued shall, for all purposes, be deemed to have become the holder of record of such shares on the date on which the applicable Warrant was surrendered and payment of the Exercise Price was made, irrespective of the date of delivery of any such certificate, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of record of such shares at the close of business on the next succeeding date on which such stock transfer books are open.

3.3.7 Cashless Exercise Under Certain Circumstances

(i) The Company promptly shall provide to the Holder written notice of any time that the Company is unable to issue the Warrant Shares via Depository-transfer or otherwise (without any restrictive legend), because (a) the Commission has issued a stop order with respect to the Registration Statement; (b) the Commission otherwise has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently; (c) the Company has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently; or (d) otherwise (each a "Restrictive Legend Event"). To the extent that a Restrictive Legend Event occurs after the Holder has exercised a Warrant in accordance with the terms of the Warrants, but prior to the delivery of the Warrant Shares, the Company shall, at the election of the Holder to be given within five (5) Business Days of receipt of notice of the Restrictive Legend Event, either (y) rescind the previously submitted Election to Purchase, in which case the Company shall return all consideration paid by the Holder for such shares upon such rescission, or (z) treat the attempted exercise as a cashless exercise as described in the immediately following paragraph and refund the cash portion of the Exercise Price to the Holder.

(ii) If a Restrictive Legend Event has occurred and no exemption from the registration requirements of the Securities Act is available, the Warrants shall only be exercisable on a cashless basis. Notwithstanding anything herein to the contrary, the Company shall not be required to make any cash payments or net cash settlement to the Holder in lieu of issuance of the Warrant Shares. Upon a "cashless exercise," the Holder shall be entitled to receive a certificate (or book entry) for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) × (C)] by (A), where:

(A) = the VWAP on the Business Day immediately preceding the date on which the Holder elects to exercise the Warrant by means of a "cashless exercise," as set forth in the applicable Election to Purchase;

(B) = the Exercise Price of the Warrant, as it may have been adjusted hereunder; and

(C) = the number of Warrant Shares that would be issuable upon exercise of the Warrant in accordance with the terms of the Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

Upon receipt of an Election to Purchase for a cashless exercise, the Warrant Agent will promptly deliver a copy of the Election to Purchase to the Company to confirm the number of Warrant Shares issuable in connection with the cashless exercise. The Company shall calculate and transmit to the Warrant Agent, and the Warrant Agent shall have no obligation under this section to calculate, the number of Warrant Shares issuable in connection with such cashless exercise.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on NYSE Amex, The NASDAQ Capital Market, The NASDAQ Global Market, The NASDAQ Global Select Market or the New York Stock Exchange (each, a "Trading Market"), the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m., New York City time, to 4:02 p.m., New York City time); (b) the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Over-the-Counter Bulletin Board; (c) if the Common Stock is not then listed or quoted for trading on the Over-the-Counter Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Warrants then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

3.3.8 Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the applicable Holders the number of Warrant Shares that are not disputed.

4. Adjustments.

4.1 Adjustment upon Subdivision or Combination of Common Stock. If the Company at any time after the Issuance Date subdivides (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Warrant Shares shall be proportionately increased. If the Company at any time after the Issuance Date combines (by any stock split, stock dividend, recapitalization, reorganization, scheme, arrangement or otherwise) its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares shall be proportionately decreased. Any adjustment under this Section 4.1 shall become effective at the close of business on the date the subdivision or combination becomes effective. The Company shall promptly notify the Warrant Agent of any such adjustment and give specific instructions to the Warrant Agent with respect to any adjustments to the Warrant Register.

4.2 Adjustment for Other Distributions. In the event the Company shall fix a record date for the making of a dividend or distribution to all holders of Common Stock of any evidences of indebtedness or assets or subscription rights or warrants (excluding those referred to in Section 4.1 or other dividends paid out of retained earnings), then, in each such case, the Exercise Price shall be adjusted by multiplying (i) the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by (ii) a fraction of which (a) the denominator shall be the VWAP determined as of the record date mentioned above, and (b) numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to each Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

4.3 Reclassification, Consolidation, Purchase, Combination, Sale, or Conveyance. If, at any time while the Warrants are outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another person; (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions; (iii) any, direct or indirect, purchase offer, tender offer, or exchange offer (whether by the Company or another person) is completed pursuant to which holders of Common Stock are permitted to sell, tender, or exchange their shares for other securities, cash, or property and has been accepted by the holders of 50% or more of the outstanding Common Stock; (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property; or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another person whereby such other person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other person or other persons making or party to, or associated or affiliated with the other persons making or party to, such stock or share purchase agreement or other business combination) (each a " Fundamental Transaction "), then, upon any subsequent exercise of a Warrant, each Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, the same amount and kind of securities, cash or property, if any, of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the " Alternate Consideration ") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which each Warrant is exercisable immediately prior to such Fundamental Transaction. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration that such Holder receives upon any exercise of each Warrant following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the " Successor Entity "), and for which stockholders received any equity securities of the Successor Entity, to assume in writing all of the obligations of the Company under this Agreement in accordance with the provisions of this Section 4.3 pursuant to written agreements and shall, upon the written request of such Holder, deliver to such Holder, in exchange for the applicable Warrants created by this Agreement, a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to the Warrants which are exercisable for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity), if any, plus any Alternate Consideration, receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which the Warrants are exercisable immediately prior to such Fundamental Transaction, and with an exercise price which applies the Exercise Price hereunder to such shares of capital stock, if any, plus any Alternate Consideration (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of such Warrant immediately prior to the consummation of such Fundamental Transaction). Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Agreement and the Warrants referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Agreement and the Warrants with the same effect as if such Successor Entity had been named as the Company herein and therein.

The Company shall instruct the Warrant Agent to mail, by first class mail, postage prepaid, to each Holder, written notice of the execution of any such amendment, supplement to this Agreement and/or the Warrants, or other agreement. Any such amendment, supplement or other agreement entered into by the Successor Entity shall provide for adjustments, which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4. The Warrant Agent shall be under no responsibility to determine the correctness of any provisions contained in such amendment, supplement or other agreement relating either to the kind or amount of securities or other property receivable upon exercise of the Warrants or with respect to the method employed and provided therein for any adjustments, and shall be entitled to rely upon the provisions contained in any such amendment, supplement or other agreement. The provisions of this Section 4.3 shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales, and conveyances of the kind described above.

4.4 Other Events. If any event occurs of the type contemplated by the provisions of Section 4.1, 4.2, or 4.3 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 to all holders of Common Stock for no consideration), then the Company's Board of Directors shall in good faith make an adjustment in the Exercise Price and the number of Warrant Shares so as to protect the rights of each Holder.

4.5 Notices of Changes in Warrant. Upon every adjustment of the Price or the number of Warrant Shares, the Company shall give written notice thereof to the Warrant Agent, which notice shall (i) state the Exercise Price resulting from such adjustment; (ii) state the increase or decrease, if any, in the number of Warrant Shares purchasable upon the exercise of a Warrant; and (iii) set forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Upon the occurrence of any event specified in Sections 4.1, 4.2 or 4.3 then, in any such event, the Company shall give written notice to each Holder, at the last address set forth for such Holder in the Warrant Register, of the record date or the effective date of the event. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event.

4.6 No Fractional Shares. If, by reason of any adjustment made pursuant to this Section 4, a Holder would be entitled, upon the exercise of such Warrant, to receive a fractional interest in a share, the Company shall, upon such exercise, round up to the nearest whole number the number of the shares of Common Stock to be issued to such Holder.

4.7 Form of Warrant. The form of Warrant attached hereto as Exhibit A need not be changed because of any adjustment pursuant to this Section 4, and any Warrants issued after such adjustment may state the same Exercise Price and the same number of shares as is stated in the Warrants initially issued pursuant to this Agreement. However, the Company may at any time, in its sole discretion, make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof, and any Warrant thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form as so changed.

5. Transfer and Exchange of Warrants.

5.1 Registration of Transfer. The Warrant Agent shall register the transfer, from time to time, of any outstanding Warrant upon the Warrant Register, upon surrender of such Warrant for transfer, properly endorsed with signatures properly guaranteed and accompanied by appropriate instructions for transfer. Upon any such transfer, a new Warrant representing an equal aggregate number of Warrants shall be issued and the old Warrant shall be cancelled by the Warrant Agent. The Warrants so cancelled shall be delivered by the Warrant Agent to the Company from time to time upon request.

5.2 Procedure for Surrender of Warrants. Warrants may be surrendered to the Warrant Agent, together with a written request for exchange or transfer reasonably acceptable to the Warrant Agent, duly executed by the Holder thereof, or by a duly authorized attorney, and thereupon the Warrant Agent shall issue in exchange therefor one or more new Warrants as requested by the Holder of the Warrants so surrendered, representing an equal aggregate number of Warrants; *provided, however* , that except as otherwise provided herein or in any Book-Entry Warrant Certificate, each Book-Entry Warrant Certificate may be transferred only in whole and only to the Depository, to another nominee of the Depository, to a successor depository, or to a nominee of a successor depository; *provided further, however* , that in the event that a Warrant surrendered for transfer bears a restrictive legend, the Warrant Agent shall not cancel such Warrant and issue new Warrants in exchange therefor until the Warrant Agent has received an opinion of counsel for the Company stating that such transfer may be made and indicating whether the new Warrants must also bear a restrictive legend. Upon any such registration of transfer, the Company shall execute, and the Warrant Agent shall countersign and deliver, in the name of the designated transferee a new Warrant Certificate or Warrant Certificates of any authorized denomination evidencing in the aggregate a like number of unexercised Warrants.

5.3 Fractional Warrants. The Warrant Agent shall not be required to effect any registration of transfer or exchange which will result in the issuance of a Warrant Certificate for a fraction of a Warrant.

5.4 Service Charges. A service charge shall be made for any exchange or registration of transfer of Warrants, as negotiated between the Company and the Warrant Agent.

5.5 Warrant Execution and Countersignature. The Warrant Agent is hereby authorized to countersign and to deliver, in accordance with the terms of this Agreement, the Warrants required to be issued pursuant to the provisions of this Section 5, and the Company, whenever required by the Warrant Agent, shall supply the Warrant Agent with Warrants duly executed on behalf of the Company for such purpose.

6. Limitations on Exercise. Neither the Warrant Agent nor the Company shall effect any exercise of any Warrant, and no Holder shall have the right to exercise any portion of a Warrant, to the extent that after giving effect to the issuance of shares of Common Stock after exercise as set forth on the applicable Election to Purchase, such Holder (together with such Holder's Affiliates (as defined in Rule 405 under the Securities Act), and any other persons acting as a group together with such Holder or any of such Holder's Affiliates), would beneficially own in excess of 4.99% of the Company's Common Stock. For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by a Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of a Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon exercise of the remaining, nonexercised portion of any Warrant beneficially owned by such Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 6, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities and Exchange Act of 1934 (the "Exchange Act"), and the rules and regulations promulgated thereunder, it being acknowledged by each Holder that neither the Warrant Agent nor the Company is representing to such Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and such Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 6 applies, the determination of whether a Warrant is exercisable (in relation to other securities owned by a Holder together with any Affiliates) and of which portion of a Warrant is exercisable shall be in the sole discretion of a Holder, and the submission of an Election to Purchase shall be deemed to be such Holder's determination of whether such Warrant is exercisable (in relation to other securities owned by such Holder together with any Affiliates) and of which portion of a Warrant is exercisable, and neither the Warrant Agent nor the Company shall have any obligation to verify or confirm the accuracy of such determination and neither of them shall have any liability for any error made by such Holder. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 6, in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in (a) the Company's most recent Form 10-Q or Form 10-K filed with the Commission, as the case may be, (b) a more recent public announcement by the Company or (c) a more recent written notice by the Company or the Company's transfer agent setting forth the number of shares of Common Stock outstanding. The provisions of this Section 6 shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 6 to correct this subsection (or any portion hereof) which may be defective or inconsistent with the intended beneficial ownership limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to any successor Holder.

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7. Other Provisions Relating to Rights of Holders.

7.1 No Rights as Stockholder. Except as otherwise specifically provided herein, a Holder, solely in its capacity as an owner of a Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Agreement be construed to confer upon a Holder, solely in its capacity as the owner of a Warrant, any of the rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Shares which it is then entitled to receive upon the due exercise of a Warrant. For the avoidance of doubt, ownership of a Warrant does not entitle the Holder or any beneficial owner thereof to any other rights of a holder of shares of Common Stock.

7.2 Lost, Stolen, Mutilated, or Destroyed Warrants. If any Warrant is lost, stolen, mutilated, or destroyed, the Company and the Warrant Agent may, on such terms as to indemnity (including obtaining an open penalty bond protecting the Warrant Agent) or otherwise as they may in their discretion impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination, tenor, and date as the Warrant so lost, stolen, mutilated, or destroyed. Any such new Warrant shall constitute a substitute contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated, or destroyed Warrant shall be at any time enforceable by anyone.

7.3 Reservation of Common Stock. The Company shall at all times reserve and keep available a number of its authorized but unissued shares of Common Stock that will be sufficient to permit the exercise in full of all outstanding Warrants issued pursuant to this Agreement.

8. Concerning the Warrant Agent and Other Matters.

8.1 Concerning the Warrant Agent. The Warrant Agent:

(i) shall have no duties or obligations other than those set forth herein and no duties or obligations shall be inferred or implied;

(ii) may rely on and shall be held harmless by the Company in acting upon any certificate, statement, instrument, opinion, notice, letter, facsimile transmission, telegram or other document, or any security delivered to it, and reasonably believed by it to be genuine and to have been made or signed by the proper party or parties;

(iii) may rely on, and shall be held harmless by the Company in acting upon, written or oral instructions or statements from the Company with respect to any matter relating to its acting as the Warrant Agent;

(iv) may consult with counsel satisfactory to it (including counsel for the Company) and shall be held harmless by the Company in relying on the advice or opinion of such counsel in respect of any action taken, suffered, or omitted by it hereunder in good faith and in accordance with such advice or opinion of such counsel;

(v) solely shall make the final determination as to whether or not a Warrant received by the Warrant Agent is duly, completely and correctly executed, and the Warrant Agent shall be held harmless by the Company in respect of any action taken, suffered or omitted by the Warrant Agent hereunder in good faith and in accordance with such determination;

(vi) shall not be obligated to take any legal or other action hereunder which might, in its judgment, subject or expose it to any expense or liability unless it shall have been furnished with an indemnity satisfactory to it; and

(vii) shall not be liable or responsible for any failure of the Company to comply with any of the Company's obligations relating to the Registration Statement or this Agreement, including, without limitation, obligations under applicable regulation or law.

8.2 Payment of Taxes. The Company shall, from time to time, promptly pay all taxes and charges that may be imposed upon the Company or the Warrant Agent in respect of the issuance or delivery of Warrant Shares upon the exercise of Warrants, but the Company shall not be obligated to pay any transfer taxes in respect of the Warrants or such Warrant Shares. The Warrant Agent shall not register any transfer, or issue or deliver any Warrant Certificate(s) or Warrant Shares, unless or until the persons requesting such registration or issuance shall have paid to the Warrant Agent, for the account of the Company, the amount of such tax, if any, or shall have established to the reasonable satisfaction of the Company that such tax, if any, has been paid.

8.3 Resignation, Consolidation, or Merger of Warrant Agent.

8.3.1 Appointment of Successor Warrant Agent. The Warrant Agent, or any successor to it hereafter appointed, may resign its duties and be discharged from all further duties and liabilities hereunder after giving sixty (60) calendar days' notice in writing to the Company. If the office of the Warrant Agent becomes vacant by resignation or incapacity to act or otherwise, the Company shall appoint in writing a successor Warrant Agent in place of the Warrant Agent. If the Company shall fail to make such appointment within a period of thirty (30) calendar days after it has been notified in writing of such resignation or incapacity by the Warrant Agent or by the Holder (who shall, with such notice, submit such Holder's Warrants for inspection by the Company), then such Holder may apply to the Supreme Court of the State of New York for the County of New York for the appointment of a successor Warrant Agent, the expenses of which shall be paid by the Company. Any successor Warrant Agent (but not including the initial Warrant Agent), whether appointed by the Company or by such court, shall be a corporation organized and existing under the laws of the State of New York, in good standing and having its principal office in the Borough of Manhattan, City of New York and State of New York, and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority. After appointment, any successor Warrant Agent shall be vested with all the authority, powers, rights, immunities, duties, and obligations of its predecessor Warrant Agent with like effect as if originally named as the Warrant Agent hereunder, without any further act or deed; but if for any reason it becomes necessary or appropriate, the predecessor Warrant Agent shall execute and deliver, at the expense of the Company, an instrument transferring to such successor Warrant Agent all the authority, powers, and rights of such predecessor Warrant Agent hereunder; and upon request of any successor Warrant Agent the Company shall make, execute, acknowledge, and deliver any and all instruments in writing for more fully and effectually vesting in and confirming to such successor Warrant Agent all such authority, powers, rights, immunities, duties, and obligations.

8.3.2 Notice of Successor Warrant Agent. In the event a successor Warrant Agent shall be appointed, the Company shall give notice thereof to the predecessor Warrant Agent and the transfer agent for the Common Stock not later than the effective date of any such appointment.

8.3.3 Merger or Consolidation of Warrant Agent. Any corporation into which the Warrant Agent may be merged or with which it may be consolidated or any corporation resulting from any merger or consolidation to which the Warrant Agent shall be a party shall be the successor Warrant Agent under this Agreement without any further act.

8.4 Fees and Expenses of Warrant Agent.

8.4.1 Remuneration. The Company agrees to pay the Warrant Agent reasonable remuneration in an amount separately agreed to between the Company and the Warrant Agent for its services as the Warrant Agent hereunder and will reimburse the Warrant Agent upon demand for all expenditures that the Warrant Agent may reasonably incur in the execution of its duties hereunder. One half of the total Warrant Agent fees (not including postage) must be paid upon execution of this Agreement. The remaining half must be paid within fifteen (15) Business Days thereafter. An invoice for any out-of-pocket and/or per item fees incurred will be rendered to and payable by the Company within fifteen (15) days of the date of said invoice. It is understood and agreed that all services to be performed by the Warrant Agent shall cease if full payment for its services has not been received in accordance with the above schedule, and said services will not commence thereafter until all payment due has been received by the Warrant Agent.

8.4.2 Further Assurances. The Company agrees to perform, execute, acknowledge, and deliver or cause to be performed, executed, acknowledged, and delivered all such further and other acts, instruments, and assurances as may reasonably be required by the Warrant Agent for the carrying out or performing of the provisions of this Agreement.

8.5 Liability of Warrant Agent.

8.5.1 Reliance on Company Statement. Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement signed by the President, Chief Executive Officer, Acting Chief Financial Officer, Chief Financial Officer or Chief Operating Officer of the Company and delivered to the Warrant Agent. The Warrant Agent may rely upon such statement for any action taken or suffered in good faith by it pursuant to the provisions of this Agreement.

8.5.2 Indemnity. The Warrant Agent shall be liable hereunder only for its own gross negligence, willful misconduct, or bad faith. The Company agrees to indemnify the Warrant Agent and save it harmless against any and all liabilities, including judgments, claims, losses, damages, costs, and reasonable counsel fees, for anything done or omitted by the Warrant Agent in the execution of this Agreement, except as a result of the Warrant Agent's gross negligence, willful misconduct, or bad faith.

8.5.3 Limitation of Liability. The Warrant Agent's aggregate liability, if any, during the term of this Agreement with respect to, arising from, or arising in connection with this Agreement, or from all services provided or omitted to be provided under this Agreement, whether in contract, or in tort, or otherwise, is limited to, and shall not exceed, the amounts paid or payable hereunder by the Company to the Warrant Agent as fees and charges (not including reimbursable expenses).

8.5.4 Disputes. In the event any question or dispute arises with respect to the proper interpretation of this Agreement or the Warrant Agent's duties hereunder or the rights of the Company or of any Holder, the Warrant Agent shall not be required to act and shall not be held liable or responsible for refusing to act until the question or dispute has been judicially settled (and the Warrant Agent may, if it deems it advisable, but shall not be obligated to, file a suit in interpleader or for a declaratory judgment for such purpose) by final judgment rendered by a court of competent jurisdiction, binding on all parties interested in the matter which is no longer subject to review or appeal, or settled by a written document in form and substance satisfactory to the Warrant Agent and executed by the Company and each other interested party. In addition, the Warrant Agent may require for such purpose, but shall not be obligated to require, the execution of such written settlement by all of the Holders of the Warrants and all other parties that may have an interest in the settlement.

8.5.5 Exclusions. The Warrant Agent shall have no responsibility with respect to the validity of this Agreement or with respect to the validity or execution of any Warrant (except its countersignature hereof and thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant; nor shall it be responsible to make any adjustments required under the provisions of Section 4 hereof or responsible for the manner, method, or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Warrant Shares to be issued pursuant to this Agreement or any Warrant or as to whether any Warrant Shares will, when issued, be duly authorized, validly issued, fully paid and nonassessable.

8.6 Acceptance of Agency. The Warrant Agent hereby accepts the agency established by this Agreement and agrees to perform the same upon the terms and conditions herein set forth, and, among other things, shall account promptly to the Company with respect to Warrants exercised and concurrently account for, and pay to the Company, all moneys received by the Warrant Agent for the purchase of Warrant Shares through the exercise of Warrants.

9. Miscellaneous Provisions.

9.1 Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns.

9.2 Notices. Any notice, statement, or demand authorized by this Agreement to be given or made by the Warrant Agent or by a Holder to or on the Company shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five (5) calendar days after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent), as follows:

CNS Response, Inc.
85 Enterprise, Suite 410
Aliso Viejo, CA 92656
Telephone: (949) 420-4400
Attn: George Carpenter, Chief Executive Officer & Director

Any notice, statement, or demand authorized by this Agreement to be given or made by a Holder or by the Company to or on the Warrant Agent shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five (5) calendar days after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company), as follows:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY
Telephone: (718) 921-8201
Attn: ___________________________

---

with a copy in each case to:

________________________________ (Warrant Agent's counsel)
____
Telephone: ______________________
Facsimile: ______________________
Attn: ___________________________

and:

Aegis Capital Corp.
810 Seventh Avenue, 11th Fl.
New York, New York 10019
Telephone: (212) 813-1010
Facsimile: (212) 813-1047
Attn: Compliance Department

and:

Gersten Savage LLP
600 Lexington Avenue, 9th Floor
New York, New York 10022
Telephone: (212) 752-9700
Facsimile: (212) 980-5192
Attn: David Danovitch, Esq.

9.3 Applicable law. The validity, interpretation, and performance of this Agreement and of the Warrants shall be governed in all respects by the laws of the State of New York, without giving effect to conflicts of law principles that would result in the application of the substantive laws of another jurisdiction. The Company hereby agrees that any action, proceeding, or claim against it arising out of or relating in any way to this Agreement shall be brought and enforced in the courts of the State of New York or the United States District Court for the Southern District of New York, and irrevocably submits to such jurisdiction, which jurisdiction shall be exclusive. The Company hereby waives any objection to such exclusive jurisdiction and that such courts represent an inconvenience forum. Any such process or summons to be served upon the Company may be served by transmitting a copy thereof by registered or certified mail, return receipt requested, postage prepaid, addressed to it at the address set forth in Section 9.2 hereof. Such mailing shall be deemed personal service and shall be legal and binding upon the Company in any action, proceeding, or claim.

9.4 Persons Having Rights under this Agreement. Nothing in this Agreement expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the parties hereto and the Holders of the Warrants and, for purposes of Sections 3.3, 9.3, and 9.8, the Underwriters, any right, remedy, or claim under or by reason of this Agreement or of any covenant, condition, stipulation, promise, or agreement hereof. The Underwriters shall be deemed to be an express third-party beneficiary of this Agreement with respect to Sections 3.3, 9.3, and 9.8 hereof. All covenants, conditions, stipulations, promises, and agreements contained in this Agreement shall be for the sole and exclusive benefit of the parties hereto (and the Underwriters with respect to the Sections 3.3, 9.3, and 9.8 hereof) and their successors and assigns and of the Holders.

9.5 Examination of this Agreement. A copy of this Agreement shall be available at all reasonable times at the office of the Warrant Agent in the City of New York, State of New York, for inspection by any Holder. The Warrant Agent may require any such Holder to submit his Warrant for inspection by it.

9.6 Counterparts. This Agreement may be executed in any number of original or facsimile counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

9.7 Effect of Headings. The Section headings herein are for convenience only and are not part of this Agreement and shall not affect the interpretation thereof.

9.8 Amendments. This Agreement may be amended by the parties hereto without the consent of any Holder for the purpose of curing any ambiguity, or of curing, correcting, or supplementing any defective provision contained herein or adding or changing any other provisions with respect to matters or questions arising under this Agreement as the parties may deem necessary or desirable and that the parties deem shall not adversely affect the interest of the Holders. All other modifications or amendments, including any amendment to increase the Exercise Price or shorten the Exercise Period, shall require the written consent of the Underwriters and the Holders of a majority of the then outstanding Warrants.

9.9 Severability. This Agreement shall be deemed severable, and the invalidity or unenforceability of any term or provision hereof shall not affect the validity or enforceability of this Agreement or of any other term or provision hereof. Furthermore, in lieu of any such invalid or unenforceable term or provision, the parties hereto intend that there shall be added as a part of this Agreement a provision as similar in terms to such invalid or unenforceable provision as may be possible that is also valid and enforceable.

9.10 Force Majeure. In the event either party is unable to perform its obligations under the terms of this Agreement because of acts of God, strikes, failure of carrier or utilities, equipment or transmission failure or damage that is reasonably beyond its control, or any other cause that is reasonably beyond its control, such party shall not be liable for damages to the other for any damages resulting from such failure to perform or otherwise from such causes. Performance under this Agreement shall resume when the affected party or parties are able to perform substantially that party's duties.

9.11 Consequential Damages. Notwithstanding anything in this Agreement to the contrary, neither party to this Agreement shall be liable to the other party for any consequential, indirect, special or incidental damages under any provision of this Agreement or for any consequential, indirect, punitive, special, or incidental damages arising out of any act or failure to act hereunder, even if that party has been advised of or has foreseen the possibility of such damages.

[*Signature Page Follows*]

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

CNS RESPONSE, INC.

By: ______________________________

Name:
Title:

AMERICAN STOCK TRANSFER & TRUST COMPANY

By ______________________________

Name:
Title:

EXHIBIT A

[FORM OF WARRANT CERTIFICATE]

EXERCISABLE ONLY IF COUNTERSIGNED BY THE WARRANT
AGENT AS PROVIDED HEREIN

Warrant Certificate Evidencing Warrants to Purchase

Common Voting Shares, par value of $0.001 per share, as described herein, of

CNS RESPONSE, INC.

No. [—] CUSIP [_________]

VOID AFTER ___ (time), NEW YORK CITY TIME,
ON ____________

This certifies that or registered assigns is the registered holder (the "Holder") of warrants to purchase certain securities (each a "Warrant"). Each Warrant entitles the Holder, subject to the provisions contained herein and in the Warrant Agreement (as defined below), to purchase from CNS Response Inc., a Delaware corporation (the " Company "), shares (collectively, the "Warrant Shares") of common voting shares, par value $0.001 per share, of the Company (the "Common Stock"), at the Exercise Price set forth below. The price per share at which each Warrant Share may be purchased at the time each Warrant is exercised (the "Exercise Price") is $___ initially, subject to adjustments as set forth in the Warrant Agreement.

This Warrant Certificate is issued under and in accordance with the Warrant Agreement, dated as of May ____, 2012 (the "Warrant Agreement"), between the Company and the Warrant Agent, and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and provisions the Holder of this Warrant Certificate and the beneficial owners of the Warrants represented by this Warrant Certificate consent by acceptance hereof. Copies of the Warrant Agreement are on file and can be inspected at the below-mentioned office of the Warrant Agent and at the office of the Company at 85 Enterprise, Suite 410, Aliso Viejo, CA 92656. Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Warrant Agreement.

Subject to the terms of the Warrant Agreement, each Warrant evidenced hereby may be exercised only after the separation of the Units, as set forth in Section 2.4 of the Warrant Agreement. Following the separation of the Units, the underlying Warrants of which are represented by this Warrant Certificate, the Holder may exercise such Warrants, at any time during the period (the "Exercise Period") beginning on the date of such separation and terminating at _____, New York City time, on _______ (the "Expiration Date"), by delivering, not later than ______, New York City time, on any Business Day during the Exercise Period (the "Exercise Date") to ____________ (the "Warrant Agent", which term includes any successor warrant agent under the Warrant Agreement described below) at its corporate trust department at ___________________, (i) this Warrant Certificate or, in the case of a Book-Entry Warrant Certificate (as defined in the Warrant Agreement), the Warrants to be exercised (the "Book-Entry Warrants") as shown on the records of The Depository Trust Company (the "Depository") to an account of the Warrant Agent at the Depository designated for such purpose in writing by the Warrant Agent to the Depository; (ii) an election to purchase (" Election to Purchase"), properly executed by the Holder hereof on the reverse of this Warrant Certificate or properly executed by the institution in whose account the Warrant is recorded on the records of the Depository (the "Participant"), and substantially in the form included on the reverse of this Warrant Certificate; and (iii) unless cashless exercise is permitted under the Warrant Agreement, certified or official bank check or a bank wire transfer in immediately available funds, in each case payable to the order of the Company. Each Warrant represented by this Warrant Certificate not exercised on or before the Expiration Date shall become null and void, and all rights of the Holder of this Warrant Certificate shall cease at the close of business on the Expiration Date.

As used herein, the term "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 or executive order to remain closed.

Warrants may be exercised only in whole numbers of Warrants. No fractional Warrant Shares are to be issued upon the exercise of this Warrant, but rather the number of Warrant Shares to be issued shall be rounded up to the nearest whole number. If fewer than all of the Warrants evidenced by this Warrant Certificate are exercised, a new Warrant Certificate for the number of Warrants remaining unexercised shall be executed by the Company and countersigned by the Warrant Agent as provided in Section 2 of the Warrant Agreement, and delivered to the Holder of this Warrant Certificate at the address specified on the books of the Warrant Agent or as otherwise specified by such Holder.

The Company shall provide to the Holder prompt written notice of any time that the Company is unable to issue the Warrant Shares via DTC transfer or otherwise (without restrictive legend), because (a) the Commission has issued a stop order with respect to the Registration Statement; (b) the Commission otherwise has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently; (c) the Company has suspended or withdrawn the effectiveness of the Registration Statement, either temporarily or permanently; or (d) otherwise (each a "Restrictive Legend Event"). To the extent that a Restrictive Legend Event occurs after the Holder has exercised a Warrant in accordance with the terms of the Warrants but prior to the delivery of the Warrant Shares, the Company shall, at the election of the Holder to be given within five (5) Business Days of receipt of notice of the Restrictive Legend Event, either (a) rescind the previously submitted Election to Purchase and the Company shall return all consideration paid by the Holder for such shares upon such rescission or (b) treat the attempted exercise as a cashless exercise as described in the next paragraph and refund the cash portion of the exercise price to the Holder.

If a Restrictive Legend Event has occurred and no exemption from the registration requirements of the Securities Act is available, the Warrants shall only be exercisable on a cashless basis. Notwithstanding anything herein to the contrary, the Company shall not be required to make any cash payments or net cash settlement to the Holder in lieu of issuance of the Warrant Shares. Upon a "cashless exercise," the Holder shall be entitled to receive a certificate (or book entry) for the number of Warrant Shares equal to the quotient obtained by dividing [(A-B) × (C)] by (A), where:

(A) = the VWAP on the Business Day immediately preceding the date on which the Holder elects to exercise the Warrant by means of a "cashless exercise," as set forth in the applicable Election to Purchase;

(B) = the Exercise Price of the Warrant, as it may have been adjusted hereunder; and

(C) = the number of Warrant Shares that would be issuable upon exercise of the Warrant in accordance with the terms of the Warrant if such exercise were by means of a cash exercise rather than a cashless exercise.

Upon receipt of an Election to Purchase for a cashless exercise, the Warrant Agent will promptly deliver a copy of the Election to Purchase to the Company to confirm the number of Warrant Shares issuable in connection with the cashless exercise. The Company shall calculate and transmit to the Warrant Agent, and the Warrant Agent shall have no obligation under this section to calculate, the number of Warrant Shares issuable in connection with such cashless exercise.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on NYSE Amex, The NASDAQ Capital Market, The NASDAQ Global Market, The NASDAQ Global Select Market or the New York Stock Exchange (each, a "Trading Market"), the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m., New York City time, to 4:02 p.m., New York City time); (b) the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Over-the-Counter Bulletin Board; (c) if the Common Stock is not then listed or quoted for trading on the Over-the-Counter Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported; or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Warrants then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

The Exercise Price and the number of Warrant Shares purchasable upon the exercise of each Warrant shall be subject to adjustment as provided pursuant to Section 4 of the Warrant Agreement.

Upon due presentment for registration of transfer or exchange of this Warrant Certificate at the stock transfer division of the Warrant Agent, the Company shall execute, and the Warrant Agent shall countersign and deliver, as provided in Section 5 of the Warrant Agreement, in the name of the designated transferee, one or more new Warrant Certificates of any authorized denomination evidencing in the aggregate a like number of unexercised Warrants, subject to the limitations provided in the Warrant Agreement.

Neither this Warrant Certificate nor the Warrants evidenced hereby entitles the Holder to any of the rights of a stockholder of the Company, including, without limitation, the right to receive dividends, or other distributions, exercise any preemptive rights to vote or to consent or to receive notice as stockholders in respect of the meetings of stockholders or the election of directors of the Company or any other matter.

The Warrant Agreement and this Warrant Certificate may be amended as provided in the Warrant Agreement including, under certain circumstances described therein, without the consent of the Holder of this Warrant Certificate or the Warrants evidenced thereby.

THIS WARRANT CERTIFICATE AND ALL RIGHTS HEREUNDER AND UNDER THE WARRANT AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS FORMED AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PROVISIONS THEREOF TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

This Warrant Certificate shall not be entitled to any benefit under the Warrant Agreement or be valid or obligatory for any purpose, and no Warrant evidenced hereby may be exercised, unless this Warrant Certificate has been countersigned by the manual signature of the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated as of May _____, 2012

CNS RESPONSE, INC.

By: ____

Name:
Title:

AMERICAN STOCK TRANSFER & TRUST COMPANY,
as Warrant Agent

By: ____

Name:
Title:

[REVERSE]

Instructions for Exercise of Warrant

To exercise the Warrants evidenced hereby, the Holder must, by _______, New York City time, on the specified Exercise Date, deliver to the Warrant Agent at its stock transfer division, a certified or official bank check or a bank wire transfer in immediately available funds, in each case payable to the Company, in an amount equal to the Exercise Price in full for the Warrants exercised. In addition, the Holder must provide the information required below and deliver this Warrant Certificate to the Warrant Agent at the address set forth below and the Book-Entry Warrants to the Warrant Agent in its account with the Depository designated for such purpose. The Warrant Certificate and this Election to Purchase must be received by the Warrant Agent by 5:00 p.m., New York City time, on the specified Exercise Date.

ELECTION TO PURCHASE
TO BE EXECUTED IF WARRANT HOLDER DESIRES
TO EXERCISE THE WARRANTS EVIDENCED HEREBY

The undersigned hereby irrevocably elects to exercise, on (the "Exercise Date"), Warrants, evidenced by this Warrant Certificate, to purchase shares (the "Warrant Shares") of common voting shares, par value of $0.001 per share (the "Common Stock ") of CNS Response, Inc., a Delaware corporation (the "Company"), and represents that on or before the Exercise Date:

☐ such Holder has tendered payment for such Warrant Shares by certified or official bank check payable to the order of the Company c/o ______________, __________________________, or by bank wire transfer in immediately available funds payable to the Company at Account No. , in each case in the amount of $ in accordance with the terms hereof, or

☐ [if permitted] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 3.3.7 of the Warrant Agreement, to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 3.3.7.

The undersigned requests that said number of Warrant Shares be in fully registered form, registered in such names and delivered, all as specified in accordance with the instructions set forth below.

If said number of Warrant Shares is less than all of the Warrant Shares purchasable hereunder, the undersigned requests that a new Warrant Certificate evidencing the remaining balance of the Warrants evidenced hereby be issued and delivered to the Holder of the Warrant Certificate, unless otherwise specified in the instructions below.

Dated: ,

Name ____
(Please Print)

______-______ -__________
(Insert Social Security or Other Identifying Number of Holder)

Address ____

____

Signature ____

This Warrant may only be exercised by presentation to the Warrant Agent at one of the following locations:

By hand at: American Stock Transfer & Trust Company

59 Maiden Lane

New York, NY 10038

By mail at: American Stock Transfer & Trust Company

59 Maiden Lane

New York, NY 10038

The method of delivery of this Warrant Certificate is at the option and risk of the exercising Holder and the delivery of this Warrant Certificate will be deemed to be made only when actually received by the Warrant Agent. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to insure timely delivery.

(Instructions as to form and delivery of Warrant Shares and/or Warrant Certificates)

Name in which Warrant Shares are to be registered if other than in the name of the Holder of this Warrant Certificate:

____

Address to which Warrant Shares are to be mailed if other than to the address of the Holder of this Warrant Certificate as shown on the books of the Warrant Agent:

____
(Street Address)

____
(City and State) (Zip Code)

Name in which Warrant Certificate evidencing unexercised Warrants, if any, is to be registered if other than in the name of the Holder of this Warrant Certificate:

____

Address to which certificate representing unexercised Warrants, if any, is to be mailed if other than to the address of the Holder of this Warrant Certificate as shown on the books of the Warrant Agent: ______________________________

____

(Street Address)

(City and State) (Zip Code)

Dated:

Signature

Signature must conform in all respects to the name of the Holder as specified on the face of this Warrant Certificate. If Warrant Shares, or a Warrant Certificate evidencing unexercised Warrants, are to be issued in a name other than that of the Holder hereof or are to be delivered to an address other than the address of such Holder as shown on the books of the Warrant Agent, the above signature must be guaranteed by a an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).

SIGNATURE GUARANTEE

Name of Firm ______________________

Address ______________________

Area Code & Number ______________________

Authorized Signature ______________________

Name ______________________

Title ______________________
Dated: __________, 201__

ASSIGNMENT

(FORM OF ASSIGNMENT TO BE EXECUTED IF WARRANT HOLDER
DESIRES TO TRANSFER WARRANTS EVIDENCED HEREBY)

FOR VALUE RECEIVED, __
(Please print name and address including zip code of assignee)

HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO

____
(Please insert social security or including zip code of assignee)

the rights represented by the within Warrant Certificate and does hereby irrevocably constitute and appoint Attorney to transfer said Warrant Certificate on the books of the Warrant Agent with full power of substitution in the premises.

Dated: ____________________________________

____
Signature

(Signature must conform in all respects to the name of the Holder as specified on the face of this Warrant Certificate and must bear a signature guarantee by an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).

SIGNATURE GUARANTEE

Name of Firm ____________________________

Address _________________________________

Area Code & Number _______________________

Authorized Signature ______________________

Name ___________________________________

Title ___________________________________
Dated: __________, 201__

Form of Representative's Option Agreement

THE REGISTERED HOLDER OF THIS PURCHASE OPTION BY ITS ACCEPTANCE HEREOF, AGREES THAT IT WILL NOT SELL, TRANSFER OR ASSIGN THIS PURCHASE OPTION EXCEPT AS HEREIN PROVIDED AND THE REGISTERED HOLDER OF THIS PURCHASE OPTION AGREES THAT IT WILL NOT SELL, TRANSFER, ASSIGN, PLEDGE OR HYPOTHECATE THIS PURCHASE OPTION FOR A PERIOD OF ONE HUNDRED EIGHTY DAYS FOLLOWING THE EFFECTIVE DATE (DEFINED BELOW) TO ANYONE OTHER THAN (I) AEGIS CAPITAL CORP. OR AN UNDERWRITER OR A SELECTED DEALER IN CONNECTION WITH THE OFFERING, OR (II) A BONA FIDE OFFICER OR PARTNER OF AEGIS CAPITAL CORP. OR OF ANY SUCH UNDERWRITER OR SELECTED DEALER.

THIS PURCHASE OPTION IS NOT EXERCISABLE PRIOR TO _________2013, [DATE THAT IS ONE YEAR AFTER DATE OF PROSPECTUS]. VOID AFTER 5:00 P.M., EASTERN TIME, ______________, 2017 [DATE THAT IS FIVE YEARS AFTER DATE OF PROSPECTUS].

COMMON STOCK PURCHASE OPTION

For the Purchase of Shares of Common Stock

Of

CNS RESPONSE, INC.

1 . Purchase Option. THIS CERTIFIES THAT, in consideration of funds duly paid by or on behalf of Aegis Capital Corp. ("**Holder**"), as registered owner of this Purchase Option, CNS Response, Inc. (the "**Company**"), Holder is entitled, at any time or from time to time from ______________, 2013 [DATE THAT IS ONE YEAR AFTER DATE OF PROSPECTUS] (the "**Commencement Date**"), and at or before 5:00 p.m., Eastern time, _______________, 2017 [DATE THAT IS FIVE YEARS AFTER DATE OF PROSPECTUS] (the "**Expiration Date**"), but not thereafter, to subscribe for, purchase and receive, in whole or in part, up to ____ shares of common stock of the Company, par value $0.001 per share (the "**Shares**"), subject to adjustment as provided in Section 6 hereof. If the Expiration Date is a day on which banking institutions are authorized by law to close, then this Purchase Option may be exercised on the next succeeding day which is not such a day in accordance with the terms herein. During the period ending on the Expiration Date, the Company agrees not to take any action that would terminate the Purchase Option. This Purchase Option is initially exercisable at $___ per Share (125% of the price of the Shares sold in the Offering); provided, however, that upon the occurrence of any of the events specified in Section 6 hereof, the rights granted by this Purchase Option, including the exercise price per Share and the number of Shares to be received upon such exercise, shall be adjusted as therein specified. The term "**Exercise Price**" shall mean the initial exercise price or the adjusted exercise price, depending on the context.

2. Exercise.

2.1 Exercise Form. In order to exercise this Purchase Option, the exercise form attached hereto must be duly executed and completed and delivered to the Company, together with this Purchase Option and payment of the Exercise Price for the Shares being purchased payable in cash by wire transfer of immediately available funds to an account designated by the Company or by certified check or official bank check. If the subscription rights represented hereby shall not be exercised at or before 5:00 p.m., Eastern time, on the Expiration Date, this Purchase Option shall become and be void without further force or effect, and all rights represented hereby shall cease and expire.

2.2 Cashless Exercise. In lieu of exercising this Purchase Option by payment of cash or check payable to the order of the Company pursuant to Section 2.1 above, Holder may elect to receive the number of Shares equal to the value of this Purchase Option (or the portion thereof being exercised), by surrender of this Purchase Option to the Company, together with the exercise form attached hereto, in which event the issue to Holder, Shares in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,		
	X	= The number of Shares to be issued to Holder;
	Y	= The number of Shares for which the Purchase Option is being exercised;
	A	= The fair market value of one Share; and
	B	= The Exercise Price.

For purposes of this Section 2.2, the fair market value of a Share is defined as follows:

(i) if the Company's common stock is traded on a securities exchange, the value shall be deemed to be the closing price on such exchange prior to the exercise form being submitted in connection with the exercise of the Purchase Option; or

(ii) if the Company's common stock is actively traded over-the-counter, the value shall be deemed to be the closing bid prior to the exercise form being submitted in connection with the exercise of the Purchase Option; if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Company's Board of Directors.

2.3 Legend. Each certificate for the securities purchased under this Purchase Option shall bear a legend as follows unless such securities have been registered under the Securities Act of 1933, as amended (the "**Act**"):

> "The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "**Act**"), or applicable state law. Neither the securities nor any interest therein may be offered for sale, sold or otherwise transferred except pursuant to an effective registration statement under the Act, or pursuant to an exemption from registration under the Act and applicable state law which, in the opinion of counsel to the Company, is available."

3. Transfer.

3.1 General Restrictions. The registered Holder of this Purchase Option agrees by his, her or its acceptance hereof, that such Holder will not: (a) sell, transfer, assign, pledge or hypothecate this Purchase Option for a period of one hundred eighty (180) days following the Effective Date to anyone other than: (i) Aegis Capital Corp. ("**Aegis**") or an underwriter or a selected dealer participating in the Offering, or (ii) a bona fide officer or partner of AEGIS or of any such underwriter or selected dealer, in each case in accordance with FINRA Conduct Rule 5110(g)(1), or (b) cause this Purchase Option or the securities issuable hereunder to be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of this Purchase Option or the securities hereunder, except as provided for in FINRA Rule 5110(g)(2). On and after the one hundred eighty (180) days of the Effective Date, transfers to others may be made subject to compliance with or exemptions from applicable securities laws. In order to make any permitted assignment, the Holder must deliver to the Company the assignment form attached hereto duly executed and completed, together with the Purchase Option and payment of all transfer taxes, if any, payable in connection therewith. The Company shall within five (5) Business Days transfer this Purchase Option on the books of the Company and shall execute and deliver a new Purchase Option or Purchase Options of like tenor to the appropriate assignee(s) expressly evidencing the right to purchase the aggregate number of Shares purchasable hereunder or such portion of such number as shall be contemplated by any such assignment.

3.2 Restrictions Imposed by the Act. The securities evidenced by this Purchase Option shall not be transferred unless and until: (i) the Company has received the opinion of counsel for the Holder that the securities may be transferred pursuant to an exemption from registration under the Act and applicable state securities laws, the availability of which is established to the reasonable satisfaction of the Company (the Company hereby agreeing that the opinion of Gersten Savage LLP shall be deemed satisfactory evidence of the availability of an exemption), or (ii) a registration statement or a post-effective amendment to the Registration Statement relating to the offer and sale of such securities has been filed by the Company and declared effective by the U.S. Securities and Exchange Commission (the "**Commission**") and compliance with applicable state securities law has been established.

4. Registration Rights.

4.1 Demand Registration.

4.1.1 Grant of Right. The Company, upon written demand (a "**Demand Notice**") of the Holder(s) of at least 51% of the Purchase Options and/or the underlying Shares ("**Majority Holders**"), agrees to register, on one occasion, all or any portion of the Shares underlying the Purchase Options (collectively, the "**Registrable Securities**"). On such occasion, the Company will file a registration statement with the SEC covering the Registrable Securities within sixty (60) days after receipt of a Demand Notice and use its reasonable best efforts to have the registration statement declared effective promptly thereafter, subject to compliance with review by the SEC; provided, however, that the Company shall not be required to comply with a Demand Notice if the Company has filed a registration statement with respect to which the Holder is entitled to piggyback registration rights pursuant to Section 4.2 hereof and either: (i) the Holder has elected to participate in the offering covered by such registration statement or (ii) if such registration statement relates to an underwritten primary offering of securities of the Company, until the offering covered by such registration statement has been withdrawn or until thirty (30) days after such offering is consummated. The demand for registration may be made at any time during a period of four (4) years beginning one (1) year after the Closing Date. The Company covenants and agrees to give written notice of its receipt of any Demand Notice by any Holder(s) to all other registered Holders of the Purchase Options and/or the Registrable Securities within ten (10) days after the date of the receipt of any such Demand Notice.

4.1.2 Terms. The Company shall bear all fees and expenses attendant to the registration of the Registrable Securities pursuant to Section 4.1.1, but the Holders shall pay any and all underwriting commissions and the expenses of any legal counsel selected by the Holders to represent them in connection with the sale of the Registrable Securities. The Company agrees to use its reasonable best efforts to cause the filing required herein to become effective promptly and to qualify or register the Registrable Securities in such States as are reasonably requested by the Holder(s); provided, however, that in no event shall the Company be required to register the Registrable Securities in a State in which such registration would cause: (i) the Company to be obligated to register or license to do business in such State or submit to general service of process in such State, or (ii) the principal shareholders of the Company to be obligated to escrow their shares of capital stock of the Company. The Company shall cause any registration statement filed pursuant to the demand right granted under Section 4.1.1 to remain effective for a period of at least twelve (12) consecutive months after the date that the Holders of the Registrable Securities covered by such registration statement are first given the opportunity to sell all of such securities. The Holders shall only use the prospectuses provided by the Company to sell the shares covered by such registration statement, and will immediately cease to use any prospectus furnished by the Company if the Company advises the Holder that such prospectus may no longer be used due to a material misstatement or omission.

4.2 "Piggy-Back" Registration.

4.2.1 Grant of Right. In addition to the demand right of registration described in Section 4.1 hereof, the Holder shall have the right, for a period of four (4) years commencing one (1) year after the Closing Date, to include the Registrable Securities as part of any other registration of securities filed by the Company (other than in connection with a transaction contemplated by Rule 145 (a) promulgated under the Act or pursuant to Form S-8 or any equivalent form); provided, however, that if, solely in connection with any primary underwritten public offering for the account of the Company, the managing underwriter(s) thereof shall, in its reasonable discretion, impose a limitation on the number of shares of Common Stock which may be included in the Registration Statement because, in such underwriter(s)' judgment, marketing or other factors dictate such limitation is necessary to facilitate public distribution, then the Company shall be obligated to include in such Registration Statement only such limited portion of the Registrable Securities with respect to which the Holder requested inclusion hereunder as the underwriter shall reasonably permit. Any exclusion of Registrable Securities shall be made pro rata among the Holders seeking to include Registrable Securities in proportion to the number of Registrable Securities sought to be included by such Holders; provided, however, that the Company shall not exclude any Registrable Securities unless the Company has first excluded all outstanding securities, the holders of which are not entitled to inclusion of such securities in such Registration Statement or are not entitled to pro rata inclusion with the Registrable Securities.

4.2.2 Terms. The Company shall bear all fees and expenses attendant to registering the Registrable Securities pursuant to Section 4.2.1 hereof, but the Holders shall pay any and all underwriting commissions and the expenses of any legal counsel selected by the Holders to represent them in connection with the sale of the Registrable Securities. In the event of such a proposed registration, the Company shall furnish the then Holders of outstanding Registrable Securities with not less than thirty (30) days written notice prior to the proposed date of filing of such registration statement. Such notice to the Holders shall continue to be given for each registration statement filed by the Company until such time as all of the Registrable Securities have been sold by the Holder. The holders of the Registrable Securities shall exercise the "piggy-back" rights provided for herein by giving written notice, within ten (10) days of the receipt of the Company's notice of its intention to file a registration statement.

4.3 General Terms.

4.3.1 Indemnification. The Company shall indemnify the Holder(s) of the Registrable Securities to be sold pursuant to any registration statement hereunder and each person, if any, who controls such Holders within the meaning of Section 15 of the Act or Section 20 (a) of the Securities Exchange Act of 1934, as amended (" **Exchange Act**"), against all loss, claim, damage, expense or liability (including all reasonable attorneys' fees and other expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which any of them may become subject under the Act, the Exchange Act or otherwise, arising from such registration statement but only to the same extent and with the same effect as the provisions pursuant to which the Company has agreed to indemnify the Underwriters contained in Section 5.1 of the Underwriting Agreement between the Underwriters and the Company, dated as of May [__], 2012. The Holder(s) of the Registrable Securities to be sold pursuant to such registration statement, and their successors and assigns, shall severally, and not jointly, indemnify the Company, against all loss, claim, damage, expense or liability (including all reasonable attorneys' fees and other expenses reasonably incurred in investigating, preparing or defending against any claim whatsoever) to which they may become subject under the Act, the Exchange Act or otherwise, arising from information furnished by or on behalf of such Holders, or their successors or assigns, in writing, for specific inclusion in such registration statement to the same extent and with the same effect as the provisions contained in Section 5.2 of the Underwriting Agreement pursuant to which the Underwriters have agreed to indemnify the Company.

4.3.2 Exercise of Purchase Options. Nothing contained in this Purchase Option shall be construed as requiring the Holder(s) to exercise their Purchase Options prior to or after the initial filing of any registration statement or the effectiveness thereof.

4.3.3 Documents Delivered to Holders. The Company shall furnish to each Holder participating in any of the foregoing offerings and to each underwriter of any such offering, if any, a signed counterpart, addressed to such Holder or underwriter, of: (i) an opinion of counsel to the Company, dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, an opinion dated the date of the closing under any underwriting agreement related thereto), and (ii) a "cold comfort" letter dated the effective date of such registration statement (and, if such registration includes an underwritten public offering, a letter dated the date of the closing under the underwriting agreement) signed by the independent registered public accounting firm which has issued a report on the Company's financial statements included in such registration statement, in each case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities. The Company shall also deliver promptly to each Holder participating in the offering requesting the correspondence and memoranda described below and to the managing underwriter, if any, copies of all correspondence between the SEC and the Company, its counsel or auditors and all memoranda relating to discussions with the SEC or its staff with respect to the registration statement and permit each Holder and underwriter to do such investigation, upon reasonable advance notice, with respect to information contained in or omitted from the registration statement as it deems reasonably necessary to comply with applicable securities laws or rules of FINRA. Such investigation shall include access to books, records and properties and opportunities to discuss the business of the Company with its officers and independent auditors, all to such reasonable extent and at such reasonable times as any such Holder shall reasonably request.

4.3.4 Underwriting Agreement. The Company shall enter into an underwriting agreement with the managing underwriter(s), if any, selected by any Holders whose Registrable Securities are being registered pursuant to this Section 4, which managing underwriter shall be reasonably satisfactory to the Company. Such agreement shall be reasonably satisfactory in form and substance to the Company, each Holder and such managing underwriters, and shall contain such representations, warranties and covenants by the Company and such other terms as are customarily contained in agreements of that type used by the managing underwriter. The Holders shall be parties to any underwriting agreement relating to an underwritten sale of their Registrable Securities and may, at their option, require that any or all the representations, warranties and covenants of the Company to or for the benefit of such underwriters shall also be made to and for the benefit of such Holders. Such Holders shall not be required to make any representations or warranties to or agreements with the Company or the underwriters except as they may relate to such Holders, their Shares and their intended methods of distribution.

4.3.5 Documents to be Delivered by Holder(s). Each of the Holder(s) participating in any of the foregoing offerings shall furnish to the Company a completed and executed questionnaire provided by the Company requesting information customarily sought of selling security holders.

4.3.6 Damages. Should the registration or the effectiveness thereof required by Section 4.1 and Section 4.2 hereof be delayed by the Company or the Company otherwise fails to comply with such provisions, the Holder(s) shall, in addition to any other legal or other relief available to the Holder(s), be entitled to obtain specific performance or other equitable (including injunctive) relief against the threatened breach of such provisions or the continuation of any such breach, without the necessity of proving actual damages and without the necessity of posting bond or other security.

5. New Purchase Options to be Issued.

5.1 Partial Exercise or Transfer. Subject to the restrictions in Section 3 hereof, this Purchase Option may be exercised or assigned in whole or in part. In the event of the exercise or assignment hereof in part only, upon surrender of this Purchase Option for cancellation, together with the duly executed exercise or assignment form and funds sufficient to pay any Exercise Price and/or transfer tax if exercised pursuant to Section 2.1 hereto, the Company shall cause to be delivered to the Holder without charge a new Purchase Option of like tenor to this Purchase Option in the name of the Holder evidencing the right of the Holder to purchase the number of Shares purchasable hereunder as to which this Purchase Option has not been exercised or assigned.

5.2 Lost Certificate. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Purchase Option and of reasonably satisfactory indemnification or the posting of a bond, the Company shall execute and deliver a new Purchase Option of like tenor and date. Any such new Purchase Option executed and delivered as a result of such loss, theft, mutilation or destruction shall constitute a substitute contractual obligation on the part of the Company.

6. Adjustments.

6.1 Adjustments to Exercise Price and Number of Securities. The Exercise Price and the number of Shares underlying the Purchase Option shall be subject to adjustment from time to time as hereinafter set forth:

6.1.1 Share Dividends; Split Ups. If, after the date hereof, and subject to the provisions of Section 6.3 below, the number of outstanding Shares is increased by a stock dividend payable in Shares or by a split up of Shares or other similar event, then, on the effective day thereof, the number of Shares purchasable hereunder shall be increased in proportion to such increase in outstanding shares, and the Exercise Price shall be proportionately increased.

6.1.2 Aggregation of Shares. If, after the date hereof, and subject to the provisions of Section 6.3 below, the number of outstanding Shares is decreased by a consolidation, combination or reclassification of Shares or other similar event, then, on the effective date thereof, the number of Shares purchasable hereunder shall be decreased in proportion to such decrease in outstanding shares.

6.1.3 Replacement of Securities upon Reorganization, etc. In case of any reclassification or reorganization of the outstanding Shares other than a change covered by Section 6.1.1 or Section 6.1.2 hereof or that solely affects the par value of such Shares, or in the case of any share reconstruction or amalgamation or consolidation of the Company with or into another corporation (other than a consolidation or share reconstruction or amalgamation in which the Company is the continuing corporation and that does not result in any reclassification or reorganization of the outstanding Shares), or in the case of any sale or conveyance to another corporation or entity of the property of the Company as an entirety or substantially as an entirety in connection with which the Company is dissolved, the Holder of this Purchase Option shall have the right thereafter (until the expiration of the right of exercise of this Purchase Option) to receive upon the exercise hereof, for the same aggregate Exercise Price payable hereunder immediately prior to such event, the kind and amount of shares of stock or other securities or property (including cash) receivable upon such reclassification, reorganization, share reconstruction or amalgamation, or consolidation, or upon a dissolution following any such sale or transfer, by a Holder of the number of Shares of the Company obtainable upon exercise of this Purchase Option immediately prior to such event; and if any reclassification also results in a change in Shares covered by Section 6.1.1 or Section 6.1.2, then such adjustment shall be made pursuant to Section 6.1.1, Section 6.1.2 and this Section 6.1.3. The provisions of this Section 6.1.3 shall similarly apply to successive reclassifications, reorganizations, share reconstructions or amalgamations, or consolidations, sales or other transfers.

6.1.4 Changes in Form of Purchase Option. This form of Purchase Option need not be changed because of any change pursuant to this Section 6.1, and Purchase Options issued after such change may state the same Exercise Price and the same number of Shares as are stated in the Purchase Options initially issued pursuant to this Agreement. The acceptance by any Holder of the issuance of new Purchase Options reflecting a required or permissive change shall not be deemed to waive any rights to an adjustment occurring after the Commencement Date or the computation thereof.

6.2 Substitute Purchase Option. In case of any consolidation of the Company with, or share reconstruction or amalgamation of the Company with or into, another corporation (other than a consolidation or share reconstruction or amalgamation which does not result in any reclassification or change of the outstanding Shares), the corporation formed by such consolidation or share reconstruction or amalgamation shall execute and deliver to the Holder a supplemental Purchase Option providing that the holder of each Purchase Option then outstanding or to be outstanding shall have the right thereafter (until the stated expiration of such Purchase Option) to receive, upon exercise of such Purchase Option, the kind and amount of shares of stock and other securities and property receivable upon such consolidation or share reconstruction or amalgamation, by a holder of the number of Shares of the Company for which such Purchase Option might have been exercised immediately prior to such consolidation, share reconstruction or amalgamation, sale or transfer. Such supplemental Purchase Option shall provide for adjustments which shall be identical to the adjustments provided for in this Section 6. The above provision of this Section shall similarly apply to successive consolidations or share reconstructions or amalgamations.

6.3 Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of Shares upon the exercise of the Purchase Option, nor shall it be required to issue scrip or pay cash in lieu of any fractional interests, it being the intent of the parties that all fractional interests shall be eliminated by rounding any fraction up or down, as the case may be, to the nearest whole number of Shares or other securities, properties or rights.

7. Reservation and Listing. The Company shall at all times reserve and keep available out of its authorized Shares, solely for the purpose of issuance upon exercise of the Purchase Options, such number of Shares or other securities, properties or rights as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Purchase Options and payment of the Exercise Price therefor, in accordance with the terms hereby, all Shares and other securities issuable upon such exercise shall be duly and validly issued, fully paid and non-assessable and not subject to preemptive rights of any shareholder. The Company further covenants and agrees that upon exercise of the Purchase Options and payment of the exercise price therefor, all Shares and other securities issuable upon such exercise shall be duly and validly issued, fully paid and non-assessable and not subject to preemptive rights of any shareholder. As long as the Purchase Options shall be outstanding, the Company shall use its commercially reasonable efforts to cause all Shares issuable upon exercise of the Purchase Options to be listed (subject to official notice of issuance) on all national securities exchanges (or, if applicable, on the OTC Bulletin Board or any successor trading market) on which the Shares issued to the public in the Offering may then be listed and/or quoted.

8. Certain Notice Requirements.

8.1 Holder's Right to Receive Notice. Nothing herein shall be construed as conferring upon the Holders the right to vote or consent or to receive notice as a shareholder for the election of directors or any other matter, or as having any rights whatsoever as a shareholder of the Company. If, however, at any time prior to the expiration of the Purchase Options and their exercise, any of the events described in Section 8.2 shall occur, then, in one or more of said events, the Company shall give written notice of such event at least fifteen days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the shareholders entitled to such dividend, distribution, conversion or exchange of securities or subscription rights, or entitled to vote on such proposed dissolution, liquidation, winding up or sale. Such notice shall specify such record date or the date of the closing of the transfer books, as the case may be. Notwithstanding the foregoing, the Company shall deliver to each Holder a copy of each notice given to the other shareholders of the Company at the same time and in the same manner that such notice is given to the shareholders.

8.2 Events Requiring Notice. The Company shall be required to give the notice described in this Section 8 upon one or more of the following events: (i) if the Company shall take a record of the holders of its Shares for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company, (ii) the Company shall offer to all the holders of its Shares any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor, or (iii) a dissolution, liquidation or winding up of the Company (other than in connection with a consolidation or share reconstruction or amalgamation) or a sale of all or substantially all of its property, assets and business shall be proposed.

8.3 Notice of Change in Exercise Price. The Company shall, promptly after an event requiring a change in the Exercise Price pursuant to Section 6 hereof, send notice to the Holders of such event and change (“**Price Notice**”). The Price Notice shall describe the event causing the change and the method of calculating same and shall be certified as being true and accurate by the Company's Chief Financial Officer.

8.4 Transmittal of Notices. All notices, requests, consents and other communications under this Purchase Option shall be in writing and shall be deemed to have been duly made when hand delivered, or mailed by express mail or private courier service: (i) if to the registered Holder of the Purchase Option, to the address of such Holder as shown on the books of the Company, or (ii) if to the Company, to following address or to such other address as the Company may designate by notice to the Holders:

If to the Holder:
Aegis Capital Corp.
810 Seventh Avenue, 11th Floor
New York, New York 10019
Attn: Mr. David Bocchi, Managing Director of
Investment Banking
Fax No.: (212) 813-1047

With a copy (which shall not constitute notice) to:

Gersten Savage LLP
600 Lexington Avenue, 9th Floor
New York, New York 10022
Attn: David Danovitch, Esq.
Fax No: (212) 980-5192

If to the Company:

CNS Response, Inc.
85 Enterprise, Suite 410
Aliso Viejo, CA 9265
Attention: Chief Executive Officer and Chief Financial Officer
Fax No: (866) 294-2611

With a copy (which shall not constitute notice) to:

SNR Denton, LLP,
Two World Financial Center
New York, New York 10281
Attn: Jeffrey Baumel, Esq.
Fax No: (212) 202-7735

9. Miscellaneous.

9.1 Amendments. The Company and Aegis may from time to time supplement or amend this Purchase Option without the approval of any of the Holders in order to cure any ambiguity, to correct or supplement any provision contained herein that may be defective or inconsistent with any other provisions herein, or to make any other provisions in regard to matters or questions arising hereunder that the Company and Aegis may deem necessary or desirable and that the Company and Aegis deem shall not adversely affect the interest of the Holders. All other modifications or amendments shall require the written consent of and be signed by the party against whom enforcement of the modification or amendment is sought.

9 . 2 Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Purchase Option.

9.3. Entire Agreement. This Purchase Option (together with the other agreements and documents being delivered pursuant to or in connection with this Purchase Option) constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements and understandings of the parties, oral and written, with respect to the subject matter hereof.

9.4 Binding Effect. This Purchase Option shall inure solely to the benefit of and shall be binding upon, the Holder and the Company and their permitted assignees, respective successors, legal representative and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Purchase Option or any provisions herein contained.

9.5 Governing Law; Submission to Jurisdiction. This Purchase Option shall be governed by and construed and enforced in accordance with the laws of the State of New York, without giving effect to conflict of laws principles thereof. The Company hereby agrees that any action, proceeding or claim against it arising out of, or relating in any way to this Purchase Option shall be brought and enforced in the New York Supreme Court, County of New York, or in the United States District Court for the Southern District of New York, and irrevocably submits to such jurisdiction, which jurisdiction shall be exclusive. The Company hereby waives any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum. Any process or summons to be served upon the Company may be served by transmitting a copy thereof by registered or certified mail, return receipt requested, postage prepaid, addressed to it at the address set forth in Section 8 hereof. Such mailing shall be deemed personal service and shall be legal and binding upon the Company in any action, proceeding or claim. The Company and the Holder agree that the prevailing party(ies) in any such action shall be entitled to recover from the other party(ies) all of its reasonable attorneys' fees and expenses relating to such action or proceeding and/or incurred in connection with the preparation therefor.

9.6 Waiver, etc. The failure of the Company or the Holder to at any time enforce any of the provisions of this Purchase Option shall not be deemed or construed to be a waiver of any such provision, nor to in any way affect the validity of this Purchase Option or any provision hereof or the right of the Company or any Holder to thereafter enforce each and every provision of this Purchase Option. No waiver of any breach, non-compliance or non-fulfillment of any of the provisions of this Purchase Option shall be effective unless set forth in a written instrument executed by the party or parties against whom or which enforcement of such waiver is sought; and no waiver of any such breach, non-compliance or non-fulfillment shall be construed or deemed to be a waiver of any other or subsequent breach, non-compliance or non-fulfillment.

9.7 Execution in Counterparts. This Purchase Option may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement, and shall become effective when one or more counterparts has been signed by each of the parties hereto and delivered to each of the other parties hereto. Such counterparts may be delivered by facsimile transmission or other electronic transmission.

9.8 Exchange Agreement. As a condition of the Holder's receipt and acceptance of this Purchase Option, Holder agrees that, at any time prior to the complete exercise of this Purchase Option by Holder, if the Company and Aegis enter into an agreement ("**Exchange Agreement**") pursuant to which they agree that all outstanding Purchase Options will be exchanged for securities or cash or a combination of both, then Holder shall agree to such exchange and become a party to the Exchange Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Purchase Option to be signed by its duly authorized officer as of the ____ day of _______, 2012.

CNS Response, Inc.

By: ____

Name:
Title:

[Form to be used to exercise Purchase Option:]

Date: __________, 20___

The undersigned hereby elects irrevocably to exercise the Purchase Option for ______ Shares of CNS Response, Inc. (the "**Company**") and hereby makes payment of $____ (at the rate of $____ per Share) in payment of the Exercise Price pursuant thereto. Please issue the Shares as to which this Purchase Option is exercised in accordance with the instructions given below and, if applicable, a new Purchase Option representing the number of Shares for which this Purchase Option has not been exercised.

or

The undersigned hereby elects irrevocably to convert its right to purchase ___ Shares under the Purchase Option for ______ Shares, as determined in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where,	X	=	The number of Shares to be issued to Holder;
	Y	=	The number of Shares for which the Purchase Option is being exercised;
	A	=	The fair market value of one Share which is equal to $_____; and
	B	=	The Exercise Price which is equal to $______ per share

The undersigned agrees and acknowledges that the calculation set forth above is subject to confirmation by the Company and any disagreement with respect to the calculation shall be resolved by the Company in its sole discretion.

Please issue the Shares as to which this Purchase Option is exercised in accordance with the instructions given below and, if applicable, a new Purchase Option representing the number of Shares for which this Purchase Option has not been converted.

Signature

Signature Guaranteed

INSTRUCTIONS FOR REGISTRATION OF SECURITIES

Name:
(Print in Block Letters)
Address:

NOTICE: The signature to this form must correspond with the name as written upon the face of the Purchase Option without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank, other than a savings bank, or by a trust company or by a firm having membership on a registered national securities exchange.

Form to be used to assign Purchase Option:

ASSIGNMENT

(To be executed by the registered Holder to effect a transfer of the within Purchase Option):

FOR VALUE RECEIVED, __________________ does hereby sell, assign and transfer unto the right to purchase shares of CNS Response, Inc. (the "**Company**") evidenced by the Purchase Option and does hereby authorize the Company to transfer such right on the books of the Company.

Dated: __________, 20__

Signature

Signature Guaranteed

NOTICE: The signature to this form must correspond with the name as written upon the face of the within Purchase Option without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank, other than a savings bank, or by a trust company or by a firm having membership on a registered national securities exchange.

CONVERSION AGREEMENT

SENIOR CONVERTIBLE PROMISSORY NOTES

This Conversion Agreement (this "Agreement") is entered into as of May 4, 2012 by and between CNS Response, Inc., a Delaware corporation (the "Company") and the undersigned ("Holders"), as the holders of senior convertible promissory notes (collectively, the "Notes" and each, a "Note") in the aggregate principal amount set forth opposite each such holder's name below, and of the related warrants (collectively, the "Warrants" and each, a "Warrant") to purchase the number of shares of common stock, par value $0.001 per share (the "Common Stock"), set forth opposite each such holder's name.

WHEREAS, the Company entered into a Note and Warrant Purchase Agreement dated as of October 1, 2010 (the "Original Agreement") with the Holders in respect of the Notes and Warrants.

WHEREAS, the Company entered into a Agreement to Convert and Amend dated as of June 3, 2011 (the "June Agreement") with the Holders in respect of the Notes and Warrants in connection with a planned listing of securities of the Company on a Canadian securities exchange.

WHEREAS, the Company subsequently entered into an Amendment and Conversion Agreement, dated as of September 30, 2011 (the "September Agreement") with Holders of a majority in outstanding principal amount of Notes (the "Majority Holders") in connection with the then-pending maturity of the Notes and conversion requirement upon a public offering in which the Company planned to issue securities yielding gross proceeds of at least $10 million.

WHEREAS, the Company effected a reverse stock split ("Reverse Split") of the Common Stock on April 2, 2012 at 5:00 pm Pacific Time, as a result of which the Conversion Price, as defined in the Notes, was adjusted to $3.00, the exercise price of the Warrants was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the Warrants was proportionately reduced.

WHEREAS, the Company wishes to issue securities, which will include Common Stock and warrants to purchase Common Stock (the "Offered Warrants"), in a public offering at a per share price to be determined by the Company (the "Per Share Offering Price"), with such offering to yield gross proceeds to the Company of at least $5 million (the "Qualified Offering").

WHEREAS, pursuant to Section 9 of the Notes, 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 and the Holders wish to agree and to amend the Notes and Warrants in accordance with the terms set forth herein.

NOW, THEREFORE, the Company and the Holders, in consideration for the mutual promises and covenants herein, agree as follows:

1. The June Agreement and September Agreement are hereby superseded in their entirety and the Holders hereby relinquish any rights they may have under each such agreement, including with respect to warrants issued or to be issued pursuant to each such agreement. For the sake of clarity, the Company and each Holder agree that the preceding sentence completely satisfies the requirement in Section 8 of the June Agreement and Section 7 of the September Agreement to expressly state that this Agreement amends, modifies or supplements the June Agreement or September Agreement as applicable.

2. Each Holder hereby waives the provisions of Section 4.1 ('Registration Rights Agreement") of the Original 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 Original Agreement, the June Agreement , the September Agreement or any Note, each Holder hereby irrevocably:

(i) agrees and consents to the amendment of its Note(s) as specified in Exhibit A hereto (the "Amendment"), with such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the Amendment by the Holders (i.e., the Amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and the Irrevocable Consent to Amend and Irrevocable Notice to Convert (the form of which is attached hereto as Exhibit A) from the 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) agrees to convert such amended Note(s) into shares of Common Stock in accordance with the terms set forth herein and on Exhibit A 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 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 dated as of September 30, 2011 between the Company and Paul Buck, as administrative agent, shall be deemed canceled and each 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 A hereto. For the sake of clarity, the parties agree that such Conversion Price will be the lesser of $3.00 (reflecting the Reverse Split), subject to adjustment as provided in the Note(s), or the Per Share Offering Price. Upon the effective date of such conversion, any and all obligations of the Company relating to the Notes, including those contained in the Original Agreement, June Agreement and September Agreement, 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 (i) and (ii) above.

c. Each Holder represents to the Company as follows:

i . Accredited Investor. The 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 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 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 Holder. In connection therewith, the 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 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 Holder desires. Without limiting the generality of the foregoing, the Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Holder has relied solely on his/her own knowledge and understanding of the Company and its business based upon the Holder's own due diligence investigations and the Company's filings with the SEC.

d. Simultaneously with the execution of this Agreement, each 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 A, 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 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 A 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 Original Agreement, the June Agreement, the September Agreement or any Warrant, each of the Holders hereby irrevocably agrees and consents to the amendment of their Warrant(s), as set forth in Exhibit B 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 Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and the Irrevocable Consent to Amend Warrants to Purchase Shares (the form of which is attached hereto as Exhibit B) from the 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 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 B, which shall be irrevocable and which shall be effective immediately upon the receipt by the Company of consent to such amendment by the Holders as specified herein and in Exhibit B 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 (i) a warrant to purchase a number of shares of Common Stock equal to one share for each two shares issuable upon conversion of the principal amount of and accrued and unpaid interest on the Note(s) amended and converted by such Holder, with the terms of such new warrant being identical to the terms of the Offered Warrants, and (ii) a warrant to purchase a number of shares of Common Stock equal to one share for each two shares issuable upon conversion of the principal amount of, but not the accrued and unpaid interest on, the Note(s) amended and converted by such Holder, with the terms of such new warrant being identical to the terms of the Warrant,as adjusted for the Reverse Split and as amended to give effect to the amendments specified herein and in Exhibit B hereto. Such new warrants are collectively referred to as the “Consideration Warrants” and will be issued by the Company and the certificates representing the Consideration Warrants 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. Any amendment effected in accordance with this Section 7 shall be binding upon each Investor, each future holder of Securities (as defined in the Original Agreement) and the Company.

8. A 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 and B hereto) contains a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof 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, Original Agreement, June Agreement and/or September Agreement 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 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 Senior Convertible Promissory Notes:	Aggregate Principal Amount:	Number of Shares Underlying Warrants (Before and After Adding Consideration Warrants):

[Signature Page - Conversion Agreement]

Exhibit A

CNS RESPONSE, INC.

Irrevocable Consent to Amend and Irrevocable Notice to Convert

Senior 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 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 Holders, i.e., such amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and this Irrevocable Consent to Amend and Irrevocable Consent to Convert from the 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 "Per Share Offering Price") and yielding gross proceeds to the Company of at least $5 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. Section 1 ("Definitions") is amended by amending and restating the following provisions:

"(x) 'Conversion Agreement' means the agreement, executed as of May 4, 2012 by the Company and the Holders in connection with a proposed Qualified Offering."

"(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 "Per Share Offering Price"), with such offering to yield gross proceeds to the Company of at least $5 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 following the date of the Conversion Agreement, subject to adjustment following the date of the Conversion Agreement 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 $3.00, subject to adjustment as provided herein, or the Per Share 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 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. 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 Note is delivered for cancellation. 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."

2. The Holder hereby acknowledges and agrees that the Note has previously been amended as follows:

(a) The maturity date of the Note has been extended to October 1, 2012.

(b) 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).

(c) The final clause in Section 18 was 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."

3. Delivery of Conversion Amount (Qualified Offering).

Aggregate Principal Amount (plus accrued and unpaid interest) to be converted:

Title of Note: ______________________ ______________________
Principal Amount

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 B

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 Conversion Agreement executed as of May 4, 2012 by the Company and the 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 $5 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 Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and this Irrevocable Consent to Amend Warrant to Purchase Shares from the 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 "Per Share Offering Price") and yielding gross proceeds to the Company of at least $5 million (the "Qualified Offering"), the Exercise Price, to the extent it exceeds the Per Share Offering Price, shall be adjusted so that it shall equal such Per Share 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:

CONVERSION AGREEMENT

SUBORDINATED CONVERTIBLE PROMISSORY NOTES

This Conversion Agreement (this "Agreement") is entered into as of May 4, 2012 by and between CNS Response, Inc., a Delaware corporation (the "Company") and the undersigned ("Holders"), as the holders of subordinated convertible promissory notes (collectively, the "Notes" and each, a "Note") in the aggregate principal amount set forth opposite each such holder's name below, and of the related warrants (collectively, the "Warrants" and each, a "Warrant") to purchase the number of shares of common stock, par value $0.001 per share (the "Common Stock"), set forth opposite each such holder's name.

WHEREAS, the Company entered into a Note and Warrant Purchase Agreement dated as of January 20, 2011 (the "Original Agreement") with the Holders in respect of the Notes and Warrants.

WHEREAS, the Company entered into a Agreement to Convert and Amend dated as of June 3, 2011 (the "June Agreement") with the Holders in respect of the Notes and Warrants in connection with a planned listing of securities of the Company on a Canadian securities exchange.

WHEREAS, the Company subsequently entered into an Amendment and Conversion Agreement, dated as of September 30, 2011 (the "September Agreement") with Holders of a majority in outstanding principal amount of Notes (the "Majority Holders") in connection with the then-pending maturity of the Notes and conversion requirements upon a public offering in which the Company planned to issue securities yielding gross proceeds of at least $10 million.

WHEREAS, the Company effected a reverse stock split ("Reverse Split") of the Common Stock on April 2, 2012 at 5:00 pm Pacific Time, as a result of which the Conversion Price, as defined in the Notes, was adjusted to $3.00, the exercise price of the Warrants was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the Warrants was proportionately reduced.

WHEREAS, the Company wishes to issue securities, which will include Common Stock and warrants to purchase Common Stock (the "Offered Warrants"), in a public offering at a per share price to be determined by the Company (the "Per Share Offering Price"), with such offering to yield gross proceeds to the Company of at least $5 million (the "Qualified Offering").

WHEREAS, pursuant to Section 9 of the Notes, 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 and the Holders wish to agree and to amend the Notes and Warrants in accordance with the terms set forth herein.

NOW, THEREFORE, the Company and the Holders, in consideration for the mutual promises and covenants herein, agree as follows:

1. The June Agreement and September Agreement are hereby superseded in their entirety and the Holders hereby relinquish any rights they may have under each such agreement, including with respect to warrants issued or to be issued pursuant to each such agreement. For the sake of clarity, the Company and each Holder agree that the preceding sentence completely satisfies the requirement in Section 8 of the June Agreement and Section 7 of the September Agreement to expressly state that this Agreement amends, modifies or supplements the June Agreement or September Agreement, as applicable.

2. Each Holder hereby waives the provisions of Section 4.1 ('Registration Rights Agreement") of the Original 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 Original Agreement, the June Agreement, the September Agreement or any Note, each Holder hereby irrevocably:

(i) agrees and consents to the amendment of its Note(s) as specified in Exhibit A hereto (the "Amendment"), with such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the Amendment by the Holders (i.e., the Amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and the Irrevocable Consent to Amend and Irrevocable Notice to Convert (the form of which is attached hereto as Exhibit A) from the 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) agrees to convert such amended Note(s) into shares of Common Stock in accordance with the terms set forth herein and on Exhibit A 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 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 dated as of September 30, 2011 between the Company and Paul Buck, as administrative agent, shall be deemed canceled and each 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 A hereto. For the sake of clarity, the parties agree that such Conversion Price will be the lesser of $3.00 (reflecting the Reverse Split), subject to adjustment as provided in the Note(s), or the Per Share Offering Price. Upon the effective date of such conversion, any and all obligations of the Company relating to the Notes, including those contained in the Original Agreement, June Agreement and September Agreement, 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 (i) and (ii) above.

c. Each Holder represents to the Company as follows:

i. Accredited Investor. The 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 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 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 Holder. In connection therewith, the 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 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 Holder desires. Without limiting the generality of the foregoing, the Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Holder has relied solely on his/her own knowledge and understanding of the Company and its business based upon the Holder's own due diligence investigations and the Company's filings with the SEC.

d. Simultaneously with the execution of this Agreement, each 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 A, 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 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 A 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 Original Agreement, the June Agreement, the September Agreement or any Warrant, each of the Holders hereby irrevocably agrees and consents to the amendment of their Warrant(s), as set forth in Exhibit B 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 Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and the Irrevocable Consent to Amend Warrants to Purchase Shares (the form of which is attached hereto as Exhibit B) from the 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 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 B, which shall be irrevocable and which shall be effective immediately upon the receipt by the Company of consent to such amendment by the Holders as specified herein and in Exhibit B 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 (i) a warrant to purchase a number of shares of Common Stock equal to one share for each two shares issuable upon conversion of the principal amount of and accrued and unpaid interest on the Note(s) amended and converted by such Holder, with the terms of such new warrant being identical to the terms of the Offered Warrants, and (ii) a warrant to purchase a number of shares of Common Stock equal to one share for each two shares issuable upon conversion of the principal amount of, but not the accrued and unpaid interest on, the Note(s) amended and converted by such Holder, with the terms of such new warrant being identical to the terms of the Warrant as adjusted for the Reverse Split and as amended to give effect to the amendments specified herein and in Exhibit B hereto. Such new warrants are collectively referred to as the “Consideration Warrants” and will be issued by the Company and the certificates representing the Consideration Warrants 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. Any amendment effected in accordance with this Section 7 shall be binding upon each Investor, each future holder of Securities (as defined in the Original Agreement) and the Company.

8. A 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 and B hereto) contains a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof 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, Original Agreement, June Agreement and/or September Agreement 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 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 (Before and After Adding Consideration Warrants):

[Signature Page - Conversion Agreement]

Exhibit A

CNS RESPONSE, INC.

Irrevocable Consent to Amend and Irrevocable Notice to Convert

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 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 Holders, i.e., such amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and this Irrevocable Consent to Amend and Irrevocable Consent to Convert from the 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 "Per Share Offering Price") and yielding gross proceeds to the Company of at least $5 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. Section 1 ("Definitions") is amended by amending and restating the following provisions:

"(x) 'Conversion Agreement' means the agreement, executed as of May 4, 2012 by the Company and the Holders in connection with a proposed Qualified Offering."

"(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 "Per Share Offering Price"), with such offering to yield gross proceeds to the Company of at least $5 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 following the date of the Conversion Agreement, subject to adjustment following the date of the Conversion Agreement 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 $3.00, subject to adjustment as provided herein, or the Per Share 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 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. 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 Note is delivered for cancellation. 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."

2. The Holder hereby acknowledges and agrees that the Note has previously been amended as follows:

(a) The maturity date of the Note has been extended to October 1, 2012.

(b) A new definition (y) was added to Section 1 as follows: "'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)."

(c) A new Section 18 was 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."

3. Delivery of Conversion Amount (Qualified Offering).

Aggregate Principal Amount (plus accrued and unpaid interest) to be converted:

Title of Note: ______________________ ______________________
Principal Amount

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 B

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 Conversion Agreement executed as of May 4, 2012 by the Company and the 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 $5 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 Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and this Irrevocable Consent to Amend Warrant to Purchase Shares from the 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 "Per Share Offering Price") and yielding gross proceeds to the Company of at least $5 million (the "Qualified Offering"), the Exercise Price, to the extent it exceeds the Per Share Offering Price, shall be adjusted so that it shall equal such Per Share 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:

CONVERSION AGREEMENT

SUBORDINATED CONVERTIBLE PROMISSORY NOTES

This Conversion Agreement (this "Agreement") is entered into as of May 4, 2012 by and between CNS Response, Inc., a Delaware corporation (the "Company") and the undersigned ("Holders"), as the holders of subordinated convertible promissory notes (collectively, the "Notes" and each, a "Note") in the aggregate principal amount set forth opposite each such holder's name below, and of the related warrants (collectively, the "Warrants" and each, a "Warrant") to purchase the number of shares of common stock, par value $0.001 per share (the "Common Stock"), set forth opposite each such holder's name.

WHEREAS, the Company entered into an Amended and Restated Note and Warrant Purchase Agreement dated as of November 11, 2011 (the "Original Agreement") with the Holders in respect of the Notes and Warrants.

WHEREAS, the Notes contain certain provisions permitting each Holders to choose to convert or redeem their Note(s) upon the consummation of a public offering in which the Company planned to issue securities yielding gross proceeds of at least $10 million.

WHEREAS, the Company effected a reverse stock split ("Reverse Split") of the Common Stock on April 2, 2012 at 5:00 pm Pacific Time, as a result of which the Conversion Price, as defined in the Notes, was adjusted to $3.00, the exercise price of the Warrants was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the Warrants was proportionately reduced.

WHEREAS, the Company wishes to issue securities, which will include Common Stock and warrants to purchase Common Stock (the "Offered Warrants"), in a public offering at a per share price to be determined by the Company (the "Per Share Offering Price"), with such offering to yield gross proceeds to the Company of at least $5 million (the "Qualified Offering").

WHEREAS, pursuant to Section 9 of the Notes, the Company will not, (i) without the written consent of Holders of a majority in outstanding principal amount of Notes (the "Majority Holders"), amend, waive or modify any provision of the Notes other than Sections 6(a)(ii), 6(c)(iii) and the proviso in the definition of "Conversion Price" in Section 6(b) and (ii) without the written consent of the Holder, the Company will not amend, waive or modify Sections 6(a)(ii) and 6(c)(iii) and the proviso in the definition of "Conversion Price" in Section 6(b) in such Holder's Note(s).

WHEREAS, pursuant to Section 5.2 of the Original Agreement, any term of the Original Agreement may be amended (either retroactively or prospectively) with the written consent of the Company and the Majority Holders.

WHEREAS, the Company and the Holders wish to agree and to amend the Notes and Warrants in accordance with the terms set forth herein.

NOW, THEREFORE, the Company and the Holders, in consideration for the mutual promises and covenants herein, agree as follows:

1. Each Holder hereby waives the provisions of Section 4.1 ('Registration Rights Agreement") of the Original Agreement, as they may apply to the Qualified Offering, and consents to the registration of the issuance of the securities in the Qualified Offering.

2. a. Notwithstanding anything to the contrary in the Original Agreement, each Holder hereby irrevocably:

(i) agrees and consents to the amendment of its Note(s) as specified in Exhibit A hereto (the "Amendment"), with such amendment being self-actuating and effective immediately upon receipt by the Company of consent to the Amendment by the Holders (i.e., the Amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and the Irrevocable Consent to Amend and Irrevocable Notice to Convert (the form of which is attached hereto as Exhibit A) from the 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) agrees to convert such amended Note(s) into shares of Common Stock in accordance with the terms set forth herein and on Exhibit A 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 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 dated as of September 30, 2011 between the Company and Paul Buck, as administrative agent, shall be deemed canceled and each 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 A hereto. For the sake of clarity, the parties agree that such Conversion Price will be the lesser of $3.00 (reflecting the Reverse Split), subject to adjustment as provided in the Note(s), or the Per Share Offering Price. Upon the effective date of such conversion, any and all obligations of the Company relating to the Notes, including those contained in the Original Agreement, 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 (i) and (ii) above.

c. Each Holder represents to the Company as follows:

i. Accredited Investor. The 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 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 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 Holder. In connection therewith, the 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 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 Holder desires. Without limiting the generality of the foregoing, the Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Holder has relied solely on his/her own knowledge and understanding of the Company and its business based upon the Holder's own due diligence investigations and the Company's filings with the SEC.

d. Simultaneously with the execution of this Agreement, each 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 A, 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 Holders, and (ii) with respect to the Conversion, shall be effective concurrently with the consummation of the Qualified Offering, both as specified in Section 2.a. hereof and Exhibit A 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 4 hereof.

3. a. Notwithstanding anything to the contrary in the Original Agreement or any Warrant, each of the Holders hereby irrevocably agrees and consents to the amendment of their Warrant(s), as set forth in Exhibit B 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 Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and the Irrevocable Consent to Amend Warrants to Purchase Shares (the form of which is attached hereto as Exhibit B) from the 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 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 B, which shall be irrevocable and which shall be effective immediately upon the receipt by the Company of consent to such amendment by the Holders as specified herein and in Exhibit B 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 4 hereof.

4. 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 equal to one share for each two shares issuable upon conversion of the principal amount of and accrued and unpaid interest on the Note(s) amended and converted by such Holder. The terms of such new warrant shall be identical to the terms of the Offered Warrants. Such new warrant, which is referred to as the “Consideration Warrant,” will be issued by the Company and the certificate representing the Consideration Warrant will be delivered to the Holder within ten (10) business days of the date of Conversion.

5. 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.

6. Any amendment effected in accordance with this Section 7 shall be binding upon each Investor, each future holder of Securities (as defined in the Original Agreement) and the Company.

7. A 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.

8. 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.

9. This Agreement (including Exhibits A and B hereto) contains a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof 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 and/or Original Agreement on the other hand, the terms of this Agreement shall prevail and control.

10. 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 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 (Before and After Adding the Consideration Warrant):

[Signature Page – Conversion Agreement]

Exhibit A

CNS RESPONSE, INC.

Irrevocable Consent to Amend and Irrevocable Notice to Convert

Subordinated Convertible Promissory Note

issued pursuant to

Amended and Restated Note and Warrant Purchase Agreement, dated as of November 11, 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 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 Holders, i.e., such amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and this Irrevocable Consent to Amend and Irrevocable Consent to Convert from the 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 "Per Share Offering Price") and yielding gross proceeds to the Company of at least $5 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. Section 1 ("Definitions") is amended by amending and restating the following provision:

"(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 "Per Share Offering Price"), with such offering to yield gross proceeds to the Company of at least $5 million."

Section 1 (“Definitions”) is furthermore amended by adding the following provision:

“(p) ‘Conversion Agreement’ means the agreement, executed as of May 4, 2012 by the Company and the Holders in connection with a proposed Qualified Offering.”

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 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 following the date of the Conversion Agreement, subject to adjustment following the date of the Conversion Agreement 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 $3.00, subject to adjustment as provided herein, or the Per Share Offering Price.”

d. Section 6(c)(iii) shall be replaced in its entirety with 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 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. 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 Conversion Date.”

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 B

CNS RESPONSE, INC. (the "Company")

Irrevocable Consent to Amend Warrant to Purchase Shares
issued pursuant to

Amended and Restated Note and Warrant Purchase Agreement, dated as of November 11, 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 Conversion Agreement executed as of May 4, 2012 by the Company and the 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 $5 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 Holders (i.e., the amendment will be effective immediately following receipt by the Company of executed copies of the Conversion Agreement and this Irrevocable Consent to Amend Warrant to Purchase Shares from the 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. Section 7(d) is to be replaced in its entirety with the following:

   "(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 "Per Share Offering Price") and yielding gross proceeds to the Company of at least $5 million (the "Qualified Offering"), the Exercise Price, to the extent it exceeds the Per Share Offering Price, shall be adjusted so that it shall equal such Per Share 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 23.1

CONSENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

We hereby consent to the use of our report dated December 21, 2011, except for all share and per share numbers presented, as to which the date is April 3, 2012 with respect to the consolidated financial statements of CNS Response, Inc. and its subsidiaries which expresses an unqualified opinion and includes an explanatory paragraph relating to a going concern uncertainty for the two-year period ended September 30, 2011, included herein and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ Cacciamatta Accountancy Corporation
CACCIAMATTA ACCOUNTANCY CORPORATION

Irvine, California
May 21, 2012