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

FORM 10-Q
(Mark One)

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

For the quarterly period ended December 31, 2012

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

For the transition period from __________________ to _____________________.

Commission file number 001-35527

CNS Response, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

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

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

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

As of February 14, 2013, the issuer had 18,182,867 shares of common stock, par value $.001 per share, issued and outstanding.

**CNS RESPONSE, INC.**

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PART I
FINANCIAL INFORMATION

**Item 1. Financial Statements**

**CNS RESPONSE, INC.**
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the three months ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| REVENUES | | |
| Neurometric Information Services | $ 28,200 | $ 32,000 |
| | | |
| OPERATING EXPENSES: | | |
| Cost of Neurometric Service revenues | 31,400 | 39,200 |
| Research | 55,800 | 69,700 |
| Product development | 87,100 | 112,500 |
| Sales and marketing | 91,500 | 286,200 |
| General and administrative | 461,300 | 808,700 |
| | | |
| Total operating expenses | 727,100 | 1,316,300 |
| | | |
| OPERATING LOSS | (698,900) | (1,284,300) |
| | | |
| OTHER INCOME (EXPENSE): | | |
| Interest income (expense), net | (598,400) | (1,482,000) |
| Gain on extinguishment of debt | 466,300 | - |
| Financing fees | (31,700) | (45,300) |
| Offering costs | - | (6,800) |
| Gain (Loss) on derivative liabilities | (97,600) | 232,100 |
| Total other income (expense) | (261,400) | (1,302,000) |
| LOSS BEFORE PROVISION FOR INCOME TAXES | (960,300) | (2,586,300) |
| Provision for income taxes | 800 | 900 |
| LOSS BEFORE OTHER COMPREHENSIVE INCOME | (961,100) | (2,587,200) |
| Other Comprehensive Income (Loss) | - | - |
| LOSS FROM CONTINUING OPERATIONS | (961,100) | (2,587,200) |
| Loss from discontinued operations | (12,200) | (144,100) |
| NET LOSS | $ (973,300) | $ (2,731,300) |
| BASIC LOSS PER SHARE: | | |
| From continuing operations | $ (0.47) | $ (1.38) |
| From discontinued operations | (0.01) | (0.08) |
| Combined Net Loss | (0.48) | (1.46) |
| | | |
| DILUTED LOSS PER SHARE: | | |
| From continuing operations | $ (0.47) | $ (1.38) |
| From discontinued operations | (0.01) | (0.08) |
| Combined Net Loss forfeiture | (0.48) | (1.46) |
| | | |
| WEIGHTED AVERAGE SHARES OUTSTANDING: | | |
| Basic | 2,024,619 | 1,873,583 |
| Diluted | 2,024,619 | 1,873,583 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**CNS RESPONSE, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | Unaudited As at December 31 2012 | As at September 30, 2012 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | $ 821,100 | $ 7,700 |
| Accounts receivable (net of allowance for doubtful accounts of $5,900 and $14,300 as of December 31 and September 30, 2012 respectively) | 17,600 | 12,400 |
| Prepaids and other | 17,800 | 43,700 |
| Assets of discontinued operation | 15,100 | 17,900 |
| Total current assets | 871,600 | 81,700 |
| Furniture & equipment, net | 15,200 | 20,000 |
| Other assets | 23,000 | 23,600 |
| TOTAL ASSETS | $ 909,800 | $ 125,300 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| CURRENT LIABILITIES: | | |
| Accounts payable (including $298,100 and $260,000 to related parties as of December 31 and September 30, 2012 respectively) | $ 2,950,500 | $ 3,086,700 |
| Accrued liabilities | 500 | 20,600 |
| Accrued compensation (including $354,800 and $499,100 to related parties as of December 31 and September 30, 2012 respectively) | 634,600 | 732,700 |
| Accrued consulting fees (including $90,000 and $81,000 to related parties as of December 31 and September 30,2012 respectively) | 116,000 | 104,000 |
| Accrued interest | 1,244,300 | 1,048,800 |
| Promissory Note | - | 200,000 |
| Derivative liability | - | 520,700 |
| Senior convertible promissory notes (net of discounts $270,200 and $370,200 as of December 31 and September 30, 2012 respectively) | 1,727,900 | 27,900 |
| Senior subordinated convertible promissory notes-related party (net of discounts of $0.00 and $0.00 as of December 31 and September 30, 2012 respectively) | 3,023,900 | 3,023,900 |
| Subordinated convertible promissory notes-related party (net of discounts $0.00 and $416,700 as of December 31 and September 30, 2012 respectively) | 4,500,000 | 4,083,300 |
| Unsecured convertible promissory note (net of discounts $0.00 and $37,500 as of December 31 and September 30, 2012 respectively) | 90,000 | 52,500 |
| Current portion of long-term debt | 4,700 | 5,200 |
| Liabilities of discontinued operation (including $88,300 and $89,000 to related parties as of December 31 and September 30, 2012 respectively) | 298,100 | 288,700 |
| Total current liabilities | 14,590,500 | 13,195,000 |
| | | |
| LONG-TERM LIABILITIES | | |
| Capital lease | 3,900 | 5,000 |
| Total long-term liabilities | 3,900 | 5,000 |
| TOTAL LIABILITIES | 14,594,400 | 13,200,000 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $0.001 par value; authorized 100,000,000 shares; 2,079,965 and 1,914,175 shares issued and outstanding as of December 31 and September 30, 2012 respectively | 2,100 | 1,900 |
| Additional paid-in capital | 32,929,900 | 32,566,700 |
| Accumulated deficit | (46,616,600) | (45,643,300) |
| Total stockholders' equity | (13,684,600) | (13,074,700) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 909,800 | $ 125,300 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | For the three months ended December 31, 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (973,300) | $ (2,731,300) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Net loss from discontinued operations | 12,200 | 144,100 |
| Depreciation and amortization | 4,000 | 4,000 |
| Amortization of discount on bridge notes issued | 423,800 | 1,379,100 |
| Stock-based compensation | 355,500 | 335,500 |
| Issuance of warrants for financing services | - | 5,700 |
| Gain on derivative liability valuation | 97,600 | (232,100) |
| Extinguishment of debt | (466,300) | |
| Non-cash interest expense | 205,500 | 138,900 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (5,200) | 14,100 |
| Prepaids and other current assets | 25,900 | 29,100 |
| Accounts payable and accrued liabilities | (136,300) | 93,600 |
| Deferred compensation | 80,200 | (37,600) |
| Deferred compensation exchange for common stock | (178,300) | - |
| Security deposit on new lease | - | 4,600 |
| Net cash used in operating activities | (554,700) | (852,300) |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of furniture & equipment | - | (1,900) |
| Disposal of fixed assets | 1,400 | - |
| Acquisition of Brain Clinics | - | (21,200) |
| Net cash used in investing activities | 1,400 | (23,100) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of a capital lease | (1,600) | (1,500) |
| Net proceeds from bridge notes | 1,368,300 | 1,040,400 |
| Proceeds from exercise of warrants | - | 900 |
| Net cash provided by (used) financing activities | 1,366,700 | 1,039,800 |
| | | |
| DISCONTINUED OPERATIONS | | |
| Net cash used in operations activities | - | (139,600) |
| Net Cash used in discontinued operations | - | (139,600) |
| NET INCREASE IN CASH | 813,400 | 24,800 |
| Cash, beginning of period | 7,700 | 73,600 |
| Cash, end of period | 821,100 | $ 98,400 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest | $ 800 | $ 3,400 |
| Income taxes | $ 800 | $ 900 |
| Fair value of intellectual property | $ - | $ 21,200 |
| Shares issued for salaries | 7,900 | - |
| Non-cash financing activities: | | |
| Offering costs | $ - | $ 101,100 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| For the three months ended December 31, 2012 | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| BALANCE - September 30, 2012 (Audited) | 1,914,175 | 1,900 | 32,566,700 | (45,643,300) | (13,074,700) |
| Stock-based compensation | - | - | 355,500 | - | 355,500 |
| Stock issued for officers' salaries | 165,790 | 200 | 7,700 | - | 7,900 |
| Net loss for the three months ended December 31, 2012 | - | - | - | (973,300) | (973,300) |
| Balance at December 31, 2012 | 2,079,965 | $ 2,100 | $ 32,929,900 | $ (46,616,600) | $ (13,684,600) |

| For the three months ended December 31, 2011 | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| BALANCE - September 30, 2011 (Audited) | 1,871,352 | 1,900 | 30,813,100 | (42,236,500) | (11,421,500) |
| Stock-based compensation | - | - | 335,500 | - | 335,500 |
| Stock issued for warrant exercise | 2,823 | - | 900 | - | 900 |
| Net loss for the three months ended December 31, 2011 | - | - | - | (2,731,300) | (2,731,300) |
| Balance at December 31, 2011 | 1,874,175 | $ 1,900 | $ 31,149,500 | $ (44,967,800) | $ (13,816,400) |

See accompanying Notes to Condensed Consolidated Financial Statements.

**CNS RESPONSE, INC.**
**NOTES TO 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 clinical decision support company with a commercial neurometric platform to predict drug response for treatment of brain disorders, including depression, anxiety, bipolar disorder and post-traumatic stress disorder. We are commencing a reimbursed 2,000 patient trial at Walter Reed National Military Medical Center ("Walter Reed" or "WRNMMC") focused on patients with depression, post-traumatic stress disorder ("PTSD") and mild traumatic brain injury ("mTBI") in order to support clinical decisions in the treatment of depression and related disorders. We will be reimbursed by Walter Reed at our standard rate for each PEER Outcome report rendered in the study. PEER stands for Psychiatric EEG Evaluation Registry ("PEER").

In addition, the Company had acquired the Neuro-Therapy Clinic, Inc. ("NTC") on January 15, 2008, which provided behavioral health care services. NTC was a center for 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. However, due to the Company's inability to raise sufficient funding and due to NTC's continued operating losses, it was decided to discontinue the operations of NTC effective September 30, 2012, as the Company chose to focus its limited cash resources on the clinical trial at Walter Reed National Military Medical Center. NTC is accounted for as a discontinued operation as detailed in *Footnote 3* .

On April 2, 2012, the Company announced that on March 30, 2012 it had 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 did not reduce the number of authorized shares of Common Stock in the same proportion as the reverse split, the effect of the Amendment was 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 were subject to adjustment were adjusted in accordance with the terms thereof. These adjustments included, without limitation, changes to the number of shares of Common Stock that would be obtained upon exercise or conversion of such securities, and changes to the applicable exercise or purchase price.

### Going Concern Uncertainty

The accompanying audited 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 ability to obtain adequate financing on a timely basis, the failure to develop or supply technology or services to meet the demands of the marketplace, 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. The Company is unable to pay its obligations as they become due and it is in arrears on paying most of its creditors. It is insolvent and needs additional funds immediately to continue its operations. If the Company is not able to raise additional funds immediately and reach some accommodations with its creditors, it will likely have to cease operations.

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 to raise substantial additional funds before the Company 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 has 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 Annual Report. The Company continues to explore additional sources of capital but there is substantial doubt as to whether any financing arrangement will be available in amounts and on terms acceptable to the Company to permit it to continue operations. The Company was unsuccessful in consummating the public offering of securities it had been pursuing in 2012. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

As of November 30, 2012 the Company closed on a $2 million round of bridge financing and has approval from the majority of note holders in each tranche to raise an additional $1 million of debt.

## 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. NTC is accounted for as a discontinued operation (see *footnote 3)* .

**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 the federally insured limit of $250,000. At December 31, 2012 cash exceeded the federally insured limit by $571,100. 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."

Effective November 28, 2012 the Company, together with the majority of the note holders of each of the October 2010 Notes, the January 2011 Notes, the October 2011 Notes and the February 2011 Note agreed to amend all the Notes, pursuant to the terms of the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement, dated as of October 24, 2012. Consequently, all of such notes were amended to (a) extend the maturity date to October 1, 2013, (b) set the conversion price at $1.00, subject to adjustment as provided in the notes and (c) remove full-ratchet anti-dilution protection. In addition, the holders forfeited the warrants they received in connection with the issuance of the notes, and consented to the 2012 Bridge Financing, the issuance of the October 2012 Notes and to the subordination of their notes to these October 2012 Notes. Both the convertible notes and warrants had contained ratchet provisions, which under ASC 815 required bifurcation of the conversion feature and warrants for derivative liability treatment. With the warrants forfeited, the ratchet in the notes eliminated and the maturity date extended, only the interest rate on all the notes remained unchanged at 9% per annum. Using the Black Scholes model, we valued each tranche of the Notes as of November 28, 2012 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 $466,300 was booked to Other Expenses as a gain on extinguishment of debt. As of December 31, 2012 the derivative liability was $0 as the warrants were eliminated and with the ratchet removed the debt conversion option liability was also $0. As of September 30, 2012 the derivative liability was $520,700, which was comprised of the warrant liability of $520,700 and debt conversion liability of $0.

**Fair Value of Financial Instruments**

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

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

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

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

The Company's warrant liability is carried at fair value totaling $520,700, as of September 30, 2012, and the Company's conversion option liability is carried at fair value of $0.00 as of September 30, 2012. The warrant liability and conversion option liability were removed on November 28, 2012, as warrants were eliminated and the ratchet feature removed from the convertible notes upon modification. As a result, the warrant liability and conversion option liability are both $0 as of December 31, 2012.

| | Carrying Value As of December 31, 2012 | Fair Value Measurements at December 31, 2012 Using Fair Value Hierarchy | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| Liabilities | | | | |
| Warrant liability | $ - | $ - | $ - | $ - |
| Senior subordinated convertible promissory notes | 3,023,900 | - | 3,023,900 | - |
| Subordinated convertible promissory notes | 4,500,000 | - | 4,500,000 | - |
| Unsecured convertible promissory notes | 90,000 | - | 90,000 | - |
| Senior convertible promissory notes | 1,727,900 | - | 1,998,100 | - |
| Conversion option liability | - | - | - | - |
| Total | $ 9,341,800 | $ - | $ 9,612,000 | $ - |

For the three months ending December 31, 2012 the Company recognized a loss of $97,600 on the change in fair value of derivative liabilities. For the three months ending December 31, 2011 the Company recognized a gain of $232,100 on the change in fair value of derivative liabilities. As at December 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.

**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 three months ended December 31, 2012 and 2011 was $4,000 and $4,000 respectively. Accumulated depreciation at December 31, 2012 and 2011 was $53,500 and $37,700 respectively.

**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**

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 three months ended December 31, 2012 and 2011.

**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. There were no advertising expenses for the three months ended December 31, 2012 and 2011.

**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.

Based on the volume of shares traded on the open market, during the period October 1, 2012 through to December 10, 2012, the date of the option grant, management judged that the Company's stock was not actively traded as only $15,000 worth of stock was traded on 11 of 48 trading days during this period at prices ranging from $0.76 to $0.83. There was a contemporaneous transaction whereby $2 million of Senior Secured Convertible Notes ("October 2012 Notes") with a conversion price of $0.04718 were purchased by accredited third party investors. Given the very low volume of stock which was not actively traded, compared to the volume of October 2012 Notes purchased, management's judgment was that the pricing of the October 2012 Notes at $0.04718 represented a better determinant of fair value of the Company's common stock and the options granted on December 10, 2012.

**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 December 31, 2012 and 2011.

**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.

**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 re-deliberate 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.

In July 2012, the FASB issued ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The new guidance is intended to reduce the complexity and costs of the annual impairment test for indefinite-lived intangible assets by allowing companies to make a qualitative evaluation about the likelihood of impairment to determine whether it should perform a quantitative impairment test. This new guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company does not expect the adoption of the standard update to have a significant impact on its financial position or results of operations.

**3. DISCONTINUED OPERATIONS**

On September 30, 2012 the Company discontinued its Clinical Services Operation at its wholly-owned subsidiary Neuro Therapy Clinic, Inc. ("NTC"), because the operation had persistent losses which could no longer be supported by the Company. Furthermore, the Company chose to focus its limited cash resources to conduct its clinical trial at Walter Reed National Military Medical Center.

As of September 30, 2012 the staff of NTC had departed and the premises were vacated. Prior to the clinic's closure all patients were sent letters informing them where they could continue their treatment with their usual provider. Two of NTC's providers joined a nearby psychiatric clinic operated by Compass Health Systems ("Compass"). NTC executed a business associate agreement with Compass to allow the confidential sharing of patient information and to enable the providers to continue to treat their patients. We are in discussion with Compass to manage NTC as part of Compass' operations with an option to acquire NTC. All revenues and operating expenses under this management agreement would belong to Compass. Furthermore, if Compass exercises their option to acquire NTC, it would be for a nominal sum. All NTC assets and liabilities incurred prior to October 1, 2012 would remain with CNS Response.

*Summary Financial Data of Discontinued Operations:*

Revenues, income before income taxes and net loss of NTC which are included in discontinued operations are as follows:

| | Three Months ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Neuro-Therapy Clinic | | |
| Revenues | $ - | $ 152,300 |
| Expenses | 12,200 | 296,400 |
| Operating Loss before taxes | $ (12,200) | $ (144,100) |
| Taxes | - | - |
| Net Loss | $ (12,200) | $ (144,100) |

The assets and liabilities of NTC are as follows:

| | As at December 31, | |
|---|---|---|
| | 2012 | 2011 |
| ASSETS: | | |
| Cash | $ 15,100 | $ 14,700 |
| Account Receivable | - | 29,100 |
| Prepaid Expenses | - | 6,300 |
| Security Deposit | - | 5,800 |
| Assets of Discontinued Operations | $ 15,100 | $ 55,900 |
| | | |
| LIABILITIES: | | |
| Accounts Payable | $ 159,600 | $ 121,900 |
| Accrued Payroll Liabilities | 138,500 | 12,300 |
| Liabilities of Discontinued Operations | $ 298,100 | $ 134,200 |

**4. 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 2010 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 2010 Notes in the aggregate principal amount of $3,023,900 and warrants to purchase 520,666 (ratchet and reverse split adjusted) 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 2011 Notes") to be issued by July 31, 2011. From January 20, 2011 through April 25, 2011, the Company issued January 2011 Notes in an aggregate principal amount of $2,500,000 and warrants to purchase 446,675 (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 "October 2011 Notes") to be issued by April 1, 2012. From October 18, 2011 through January 31, 2012, the Company issued October 2011 Notes in an aggregate principal amount of $2,000,000 and warrants to purchase 687,174 shares of common stock.

On February 29, 2012, the Company raised $90,000 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 October 2011 Notes and warrants except that the February Note is not secured.

From August 17, 2012 through September 30, 2012, the Company issued August 2012 Bridge Notes (August 2012 Notes) in an aggregate principal amount of $400,000 as part of a $2 million bridge financing. These August 2012 Notes were subsequently amended and replaced with October 2012 Notes. From October 19, 2012 to November 30, 2012 the Company issued additional October 2012 Notes in the aggregate principal amount of $1,600,000 to complete the $2 million bridge financing. No warrants were issued in conjunction with these notes. Furthermore $1,900 of these notes were converted into 40,000 shares of common stock prior to September 30, 2012 leaving an aggregate net $1,998,100 of convertible promissory October 2012 Bridge Notes outstanding.

The securities issued under the 2010, 2011 and 2012 Note and Warrant Purchase Agreements through December 31, 2012 are summarized in the following table and notes:

| Note Type and Investor | | Amended Due Date | As of December 31, 2012 Balance ($) | Discount ($) | Carrying Value ($) | Warrants Issued | Warrant Expiration Date |
|---|---|---|---|---|---|---|---|
| **Senior Subordinated Secured 9% Notes Convertible at $1.00 (the "October 2010 Notes")(21)(23)(26)** | | | | | | | |
| John Pappajohn | (1) | 10/01/2013 | $ 761,700 | $ - | $ 761,700 | - | - |
| Deerwood Partners, LLC | (2) | 10/01/2013 | 256,100 | - | 256,100 | - | - |
| Deerwood Holdings, LLC | (2) | 10/01/2013 | 256,100 | - | 256,100 | - | - |
| SAIL Venture Partners, LP | (3) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| Fatos Mucha | (10) | 10/01/2013 | 100,000 | - | 100,000 | - | - |
| Andy Sassine | (4) | 10/01/2013 | 500,000 | - | 500,000 | - | - |
| JD Advisors | (10) | 10/01/2013 | 150,000 | - | 150,000 | - | - |
| Queen Street Partners | (10) | 10/01/2013 | 100,000 | - | 100,000 | - | - |
| BGN Acquisitions | (2) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| Pyxis Long/Short Fund Healthcare Fund | (5) | 10/01/2013 | 400,000 | - | 400,000 | - | - |
| Monarch Capital: Placement Agent Warrants | (6) | | - | - | - | 3,334 | 10/11/2015 |
| Monarch Capital: Placement Agent Warrants | (6) | | - | - | - | 13,334 | 11/11/2015 |
| **Total Senior Subordinated Secured Convertible Promissory (October 2010) Notes** | | **10/01/2013** | **$ 3,023,900** | **$ -** | **$ 3,023,900** | **16,668** | **2015** |

| Note Type and Investor | | Amended Due Date | Balance ($) | Discount ($) | Carrying Value ($) | Warrants Issued | Warrant Expiration Date |
|---|---|---|---|---|---|---|---|
| **Subordinated Secured 9% Notes Convertible at $1.00 (the "January 2011 Notes") (22)(23)(26)** | | | | | | | |
| Meyer Proler MD | (7) | 10/01/2013 | $ 50,000 | **$ -** | $ 50,000 | **-** | **-** |
| William F. Grieco | (10) | 10/01/2013 | 100,000 | - | 100,000 | - | - |
| Edward L. Scanlon | (10) | 10/01/2013 | 200,000 | - | 200,000 | - | - |
| Robert Frommer Family Trust | (8) | 10/01/2013 | 50,000 | - | 50,000 | - | - |
| Paul Buck | (9) | 10/01/2013 | 50,000 | - | 50,000 | - | - |
| Andy Sassine | (4) | 10/01/2013 | 200,000 | - | 200,000 | - | - |
| SAIL Venture Partners, LP | (3) | 10/01/2013 | 187,500 | - | 187,500 | - | - |
| SAIL 2010 Co-Investment Partners, LP | (3) | 10/01/2013 | 62,500 | - | 62,500 | - | - |
| Pyxis Long/Short Healthcare Fund | (5) | 10/01/2013 | 400,000 | - | 400,000 | - | - |
| Monarch Capital: Placement Agent Warrants | (6) | 10/01/2013 | - | - | - | 18,334 | 02/27/2016 |
| Rajiv Kaul | (10) | 10/01/2013 | 100,000 | - | 100,000 | - | - |
| Meyer Proler MD | (7) | 10/01/2013 | 50,000 | - | 50,000 | - | - |
| SAIL Venture Partners, LP | (3) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| SAIL 2010 Co-Investment Partners, LP | (3) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| John M Pulos | (10) | 10/01/2013 | 150,000 | - | 150,000 | - | - |
| SAIL Venture Partners, LP | (3) | 10/01/2013 | 125,000 | - | 125,000 | - | - |
| SAIL 2010 Co-Investment Partners, LP | (3) | 10/01/2013 | 125,000 | - | 125,000 | - | - |
| Cummings Bay Capital LP | (5) | 10/01/2013 | 150,000 | - | 150,000 | - | - |
| Monarch Capital: Placement Agent Warrants | (6) | | - | - | - | 6,667 | 04/24/2016 |
| Antaeus Capital: Placement Agent Warrants | (11) | | - | - | - | 5,000 | 04/24/2016 |
| **Total Subordinated Secured Convertible Promissory (January 2011) Notes** | | **10/01/2013** | **$ 2,500,000** | **$ -** | **$ 2,500,000** | **30,001** | **2016** |

**Subordinated Secured 9% Notes Convertible at $1.00 (the "October 2011 Notes") (24)(26)**

| | | Due Date | Balance ($) | Discount ($) | Carrying Value ($) | Warrants Issued | Warrant Expiration Date |
|---|---|---|---|---|---|---|---|
| John Pappajohn | (1) | 10/01/2013 | $ 250,000 | $ - | 250,000 | - | - |
| Jordan Family, LLC | (10) | 10/01/2013 | 20,000 | - | 20,000 | - | - |
| Larry Hopfenspirger | (20) | 10/01/2013 | 60,000 | - | 60,000 | - | - |
| John Pappajohn | (1) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| Zanett Opportunity Fund, Ltd | (12) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| John Pappajohn | (1) | 10/01/2013 | 250,000 | - | 250,000 | - | - |
| Monarch Capital: Placement Agent Warrants | (6) | | - | - | - | 2,667 | 12/15/2016 |
| Edward L. Scanlon | (10) | 10/01/2013 | 100,000 | - | 100,000 | - | - |
| John Pagnucco | (10) | 10/01/2013 | 50,000 | - | 50,000 | - | - |
| Larry Hopfenspirger | (20) | 10/01/2013 | 30,000 | - | 30,000 | - | - |
| Gene Salkind, MD | (10) | 10/01/2013 | 50,000 | - | 50,000 | - | - |
| AlphaNorth Offshore, Inc. | (13) | 10/01/2013 | 500,000 | - | 500,000 | - | - |
| Aubrey W. Baillie | (10) | 10/01/2013 | 100,000 | - | 100,000 | - | - |
| Zanett Opportunity Fund, Ltd | (12) | 10/01/2013 | 40,000 | - | 40,000 | - | - |
| BluMont Northern Rivers Fund | (10) | 10/01/2013 | 50,000 | - | 50,000 | - | - |
| Monarch Capital: Placement Agent Warrants | (6) | | - | - | - | 2,667 | 02/12/2017- |
| Innerkip Placement Agent Warrants | (14) | | - | - | - | 15,167 | 02/12/2017 |
| **Total Subordinated Secured Convertible Promissory (October 2011) Notes** | | **10/01/2013** | **$ 2,000,000** | **$ -** | **$ 2,000,000** | **20,501** | **2016-2017** |
| **Total Subordinated Secured Convertible Promissory Notes** | | | **$ 4,500,000** | **$ -** | **$ 4,500,000** | **-** | |

**Unsecured 9% Notes Convertible at $1.00 (the "Unsecured Note") (25)(26)**

| | | Due Date | Balance ($) | Discount ($) | Carrying Value ($) | Warrants Issued | Warrant Expiration Date |
|---|---|---|---|---|---|---|---|
| Zanett Opportunity Fund, Ltd | (12) | 10/01/2013 | 90,000 | - | 90,000 | - | - |
| **Total Unsecured Convertible Promissory Notes** | | | **$ 90,000** | **$ -** | **$ 90,000** | **-** | |

**Senior Secured 9% Notes Convertible at $0.04718 (the "October 2012" Notes) (26)**

| | | Due Date | Balance ($) | Discount ($) | Carrying Value ($) | Warrants Issued | Warrant Expiration Date |
|---|---|---|---|---|---|---|---|
| Sail Holding LLC | (3) | 10/01/2013 | 100,000 | (67,700) | 32,300 | - | - |
| Tierney Family Trust | (15) | 10/01/2013 | 100,000 | (67,600) | 32,400 | - | - |
| BluMont Northern Rivers Fund | (10) | 10/01/2013 | 48,100 | (33,800) | 14,300 | - | - |
| Meyer Proler MD | (7) | 10/01/2013 | 50,000 | (33,800) | 16,200 | - | - |
| Tierney Family Trust | (15) | 10/01/2013 | 100,000 | (67,300) | 32,700 | - | - |
| The Follman Trust | (16) | 10/19/2013 | 200,000 | - | 200,000 | - | - |
| Extuple Limited Partnership | (17) | 10/25/2013 | 200,000 | - | 200,000 | - | - |
| SAIL 2010 Co-Investment Partners, LP | (3) | 10/26/2013 | 20,000 | - | 20,000 | - | - |
| SAIL 2011 Co-Investment Partners, LP | (3) | 10/26/2013 | 20,000 | - | 20,000 | - | - |
| SAIL Venture Partners II, LP | (3) | 10/26/2013 | 50,000 | - | 50,000 | - | - |
| AlphaNorth Offshore, Inc. | (13) | 11/06/2013 | 100,000 | - | 100,000 | - | - |
| Argyris & Ann Vassiliou | (10) | 11/28/2013 | 25,000 | - | 25,000 | - | - |
| George Carpenter | (8) | 11/28/2013 | 50,000 | - | 50,000 | - | - |
| John Pappajohn | (1) | 11/28/2013 | 500,000 | - | 500,000 | - | - |
| Andy Sassine | (4) | 11/29/2013 | 25,000 | - | 25,000 | - | - |
| Mark & Jill Oman | (18) | 11/29/2013 | 250,000 | - | 250,000 | - | - |
| Ronald Dozoretz MD | (19) | 11/29/2013 | 100,000 | - | 100,000 | - | - |
| Larry Hopfenspirger | (20) | 11/30/2013 | 60,000 | - | 60,000 | - | - |
| **Total Senior Secured Convertible Promissory (October 2012) Notes** | | | **$ 1,998,100** | **$ (270,200)** | **$ 1,727,900** | **-** | **-** |
| **Total** | | | **$ 9,612,000** | **$ (270,200)** | **$ 9,341,800** | **67,170** | **-** |

(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.

On October 1, 2010, we entered into a Note and Warrant Purchase Agreement (the “October Purchase Agreement”) with Mr. Pappajohn, pursuant to which we issued to Mr. Pappajohn October 2010 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 2010 Notes in the aggregate principal amount of $250,000 and related warrants to purchase up to 41,667 shares. We also issued October 2010 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 Mr. 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 October 2011 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 three 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.

On November 28, 2012, we entered into an Amended and Restated Bridge Financing Purchase Agreement with Mr. Pappajohn pursuant to which we issued to Mr. Pappajohn a October 2012 Note in the aggregate principal amount of $500,000, inclusive of the exchange of $200,000 in aggregate principal amount of demand notes issued on April 26 and May 25, 2012 for an aggregate of $200,000. The gross new cash proceeds to the Company from the November 28 issuance to Mr. Pappajohn were $300,000.

(2) As of September 30, 2012, Dr. George Kallins was 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.

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 2010 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 2010 Notes in the aggregate principal amount of $250,000 and related warrants to purchase up to 41,667 shares. (b) We also issued October 2010 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 2010 Notes issued to such investors. The obligations under each guaranty are independent of our obligations under the October 2010 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) Until his departure from our Board on November 30, 2012, Mr. Dave Jones was 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. and SAIL Holdings, LLC are affiliates. Mr. Jones remains a limited partner of SAIL. On December 10, 2012, Mr. Walter Schindler joined the Board of the Company. Mr. Schindler holds sole voting and investment power over securities held by SAIL Holdings LLC. As the managing partner of SAIL Capital Partners, which is the general partner of the remaining SAIL entities, Mr. Schindler along with his fellow managing partner, Henry Habicht, holds voting and investment power over securities held by the remaining SAIL entities.

(4) Mr. Andy Sassine is an accredited investor and is a beneficial owner of more than 5% of our outstanding common stock and is a Director Nominee to the Company.

(5) Pyxis Long/Short Healthcare Fund (FKA Highland Long/Short Healthcare Fund) is affiliated with Cummings Bay Capital LP. Both individually and in the aggregate with Cummings Bay Capital LP, Pyxis 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 2010 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 2010 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 2010 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 2010 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 2011 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 2011 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 2011 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 2011 Notes.

Monarch has acted as non-exclusive placement agent with respect to the placement of certain of the abovementioned January 2011 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 2011 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 October 2011 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 October 2011 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 $16,000 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.

Monarch also acted as non-exclusive placement agent with respect to the placement of October 2012 Notes in the aggregate principal amount of $60,000, 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. In connection with acting as nonexclusive placement agent with respect to an October 2012 Note dated November 30, 2012 in the aggregate principal amount of $60,000, Monarch received aggregate cash fees of $6,000 and an aggregate cash expense allowance of $1,200 and will be issued a five-year warrants to purchase an aggregate of up to 127,172 shares of the Company's common stock at an exercise price of $0.04718 per share.

Effective on November 20, 2012 the holders of placement agent warrants agreed to remove the ratchet feature in exchange for lowering the conversion price to $1.00 per share down from $3.00 per share. This resulted in the elimination of warrant liabilities as of such date.

(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.

On November 28, 2012, we entered into an Amended and Restated Bridge Financing Purchase Agreement with Mr. Carpenter pursuant to which we issued to Mr. Carpenter an October 2012 Note in the aggregate principal amount of $50,000 in exchange for $50,000 in cash. Mr. Carpenter resigned from the Company's Board effective November 30, 2012 and remains the Company's President and Chief Executive Officer.

(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 2011 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 was entitled to receive (a) a cash fee equal to 10% of the gross proceeds raised from the sale of January 2011 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 2011 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.

Effective on November 20, 2012 the holders of placement agent warrants agreed to remove the ratchet feature in exchange for lowering the conversion price to $1.00 per share down from $3.00 per share. This resulted in the elimination of warrant liabilities as of such date.

(12) On November 17, 2011, Zanett Opportunity Fund, Ltd., a Bermuda corporation for which McAdoo Capital, Inc. is the investment manager, purchased October 2011 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 October 2011 Notes and related warrants, except that the Unsecured Notes are not secured by our assets.

(13) On January 25, 2012, AlphaNorth Offshore, Inc. purchased an October 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.

On November 6, 2012, AlphaNorth Offshore, Inc. purchased an October 2012 Note in the aggregate principal amount of $100,000 in exchange for $100,000 in cash. This October 2012 Note has a restrictive condition on conversion preventing AlphaNorth Offshore from having a beneficial ownership of greater than 4.999% of the Company. Mr. Tony Pullen received a finder's fee of $7,000 and will be issued warrants to purchase 211,954 shares of common stock at $0.04718 per share.

(14) 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 October 2011 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 was entitled to receive (a) a cash fee equal to 7% of the gross proceeds raised from the sale of October 2011 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 October 2011 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.

Effective on November 20, 2012 the holders of placement agent warrants agreed to remove the ratchet feature in exchange for lowering the conversion price to $1.00 per share down from $3.00 per share. This resulted in the elimination of warrant liabilities as of such date.

(15) Mr. Thomas Tierney is a trustee of the Thomas T. Tierney and Elizabeth C. Tierney Family Trust ("Tierney Family Trust") and is a limited partner of SAIL. Mr. Tierney is a Director Nominee of the Company and a beneficial owner of more than 5% of our outstanding common stock.

(16) Mr. Robert Follman is a trustee of the Trust of Robert J. Follman and Carole A. Follman, dated August 14, 1979 ("Follman Trust") and is a limited partner of SAIL. Mr. Follman is a Director Nominee of the Company and a beneficial owner of more than 5% of our outstanding common stock.

(17) On October 25, 2012, an October 2012 Note in the aggregate principal amount of $200,000 was issued in exchange for cash to Extuple Limited Partnership ("Extuple"), an accredited investor, of which Philip Deck is the managing partner. Extuple is a beneficial owner of more than 5% of our outstanding common stock. Mr. Tony Pullen received a finder's fee of $14,000 and will be issued warrants to purchase 423,908 shares of common stock at $0.04718 per share.

(18) On November 29, 2012, an October 2012 Note in the aggregate principal amount of $250,000 was issued in exchange for cash to Mark and Jill Oman, who are accredited investors. Mark and Jill Oman are beneficial owners of more than 5% of our outstanding stock.

(19) On November 29, 2012, an October 2012 Note in the aggregate principal amount of $100,000 was issued in exchange for cash to Ronald Dozoretz MD, an accredited investor who has previously invested in the Company and is a beneficial owner of more than 5% of our outstanding stock.

(20) On November 10, 2011 and January 24, 2012 two October 2011 Notes in the aggregate principal amount of $90,000 and a warrant to purchase 30,000 shares of common stock were issued to Mr. Larry Hopfenspirger, an accredited investor who had previously invested in the Company. On November 30, 2012, we issued an additional $60,000 October 2012 Note to Mr. Hopfenspirger in exchange for cash. Mr. Hopfenspirger is a beneficial owner of more than 5% of our outstanding stock.

(21) The October 2010 Notes: The October Purchase Agreement provides for the issuance and sale of October 2010 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 2010 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 2010 Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the October 2010 Notes and the related warrants.

Initially, the October 2010 Notes were to 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 be convertible into shares of common stock of the Company at a conversion price of $9.00. The conversion price was 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 2010 Notes were 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 2010 Notes can be declared due and payable upon an event of default, defined in the October 2010 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 2010 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 2010 Notes. This agreement was subsequently amended.

The warrants related to the October 2010 Notes were to expire seven years from the date of issuance and were 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 were 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 2010 Notes or related warrants could 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 would affect all October 2010 Notes or warrants, as the case may be, and will be binding on all holders thereof.

The October 2010 Notes were subsequently amended as detailed in (23) below.

(22) The January 2011 Notes: The 2011 Note and Warrant Purchase Agreement (the "January Purchase Agreement") provides for the issuance and sale of January 2011 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 2011 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 2011 Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the January 2011 Notes and the related warrants.

The terms of the January 2011 Notes are identical to the terms of the October 2010 Notes, except that (i) the January 2011 Notes are subordinated in all respects to the Company's obligations under the October 2010 Notes and the related guaranties issued to certain investors by SAIL and (ii) the Company is not subject to a restrictive covenant to the use of proceeds from the sale of the January 2011 Notes only for current operations. Initially, the January 2011 Notes were not secured by any of the Company's assets. The terms of the warrants were identical to the terms of the warrants issued in connection with the October 2010 Notes.

The January 2011 Notes were subsequently amended as detailed in (23) below.

(23) Amendment of the October 2010 Notes and the January 2011 Notes: On October 11, 2011, the Company, with the consent of holders of a majority in aggregate principal amount outstanding (the "Majority Holders") of our outstanding January 2011 Notes, amended all of the January 2011 Notes to extend the maturity of such notes until October 1, 2012 by means of an "Amendment and Conversion Agreement." Pursuant to the terms of the amendment, which was effective as of September 30, 2011, the January 2011 Notes would receive a second position security interest in the assets of the Company (including its intellectual property). The Majority Holders of the January 2011 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 2011 Notes. The amendment was also intended to add a mandatory conversion provision to the terms of the January 2011 Notes. Under that provision, the January 2011 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 2010 Notes, amended all of the October 2010 Notes to extend the maturity of such notes until October 1, 2012 by means of an Amendment and Conversion Agreement. The Majority Holders of the October 2010 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 2011 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 2010 Notes as were added to the terms of the January 2011 Notes.

As a result of the issuance of October 2011 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 2010 Notes and January 2011 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 replaced the existing security agreement from 2010, and the corresponding security interest terminate (1) with respect to the October 2010 Notes, if and when holders of a majority of the aggregate principal amount of October 2010 Notes issued have converted their notes into shares of common stock and, (2) with respect to the January 2011 Notes and the October 2011 Notes (defined below), if and when holders of a majority of the aggregate principal amount of January 2011 Notes and October 2011 Notes (on a combined basis) have converted their notes.

On June 1, 2012, the Company, having received on or prior to such date the consent of the Majority Holders of the October 2010 and January 2011 Notes, amended all of the October 2010 Notes and the January 2011 Notes to add a mandatory conversion provision to the terms of such notes. Under that provision, the October 2010 Notes and January 2011 Notes would be automatically converted upon the closing of a public offering by the Company of shares of its securities with gross proceeds to the Company of at least $3 million. 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. Pursuant to the agreements amending the October 2010 Notes and January 2011 Notes, which superseded the Amendment and Conversion Agreements, the exercise price of the warrants that were issued in connection with the notes would be adjusted to match such public offering price, if such price were lower than the exercise price then in effect. The warrants were also amended to remove the full-ratchet provision from the warrants for securities offerings occurring after any such public offering. The Company agreed to issue to each holder of the October 2010 and January 2011 Notes, as consideration for the above and, warrants to purchase a number of shares of common stock corresponding to 100% of the number of shares issuable upon conversion of the principal amount and accrued and unpaid interest of his or her notes. These warrants would be issued on or within 10 business days after any public offering.

The Company evaluated the agreements amending the October 2010 Notes and January 2011 Notes (which superseded the Amendment and Conversion Agreements) as of September 30, 2012, under ASC 470. The Company noted the change in terms did not constitute a substantial modification under ASC470.

The consents to the 2012 Bridge Financing obtained from holders of previously outstanding convertible promissory notes have taken effect, since the Company has raised more than $1.35 million in the 2012 Bridge Financing. Such consents had been given pursuant to the terms of the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement, dated as of October 24, 2012 (the "Consent Agreement"), between the Company and the holders of at least a majority in aggregate principal amount outstanding ("Majority Holders") of each tranche of the Company's secured convertible promissory notes issued in October and November 2010 (the "October 2010 Notes"), secured convertible promissory notes issued between January and April 2011 (the "January 2011 Notes"), secured convertible promissory notes issued between October 2011 and January 2012 (the "October 2011 Notes") and an unsecured convertible promissory note issued in February 2012 (the "February 2012 Note"). As a result, all of such notes were amended to (a) extend the maturity date of October 1, 2013, (b) set the conversion price at $1.00, subject to adjustment as provided in the notes and (c) remove full-ratchet anti-dilution protection. In addition, the holders forfeited the warrants they received in connection with the issuance of the notes, and consented to the 2012 Bridge Financing, the issuance of the October 2012 Notes and to the subordination of their notes to these October 2012 Notes.

The Company evaluated the Consent Agreement, effective November 28, 2012 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 Consent 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 gain on extinguishment of debt of $466,300 for the period ended December 31, 2012.

(24) The October 2011 Bridge Notes: The 2011 Bridge Financing Purchase Agreement provides for the issuance and sale of October 2011 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 October 2011 Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the October 2011 Notes and the related warrants.

Initially, the October 2011 Notes were to 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, be convertible into shares of common stock of the Company at a conversion price of $3.00, be 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 2011 Notes, be subordinated in all respects to the Company's obligations under its October 2010 Notes and the related guaranties issued to certain investors by SAIL Venture Partners, L.P. be are pari passu to the obligations under the January 2011 Notes. The second position security interest is governed by the Amended and Restated Security Agreement.

The conversion price of the October 2011 Notes was 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 would 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 October 2011 Notes can be declared due and payable upon an event of default, defined in the October 2011 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 October 2011 Notes were to expire five years from the date of issuance and were 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 were 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 would not be adjusted for any further financings. The warrants contained 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 October 2011 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 October 2011 Notes or warrants, as the case may be, and will be binding on the Company and all holders of the October 2011 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 2010 Notes, if and when holders of a majority of the aggregate principal amount of October 2010 Notes issued have converted their notes into shares of common stock and (2) with respect to the January 2011 Notes and 2011 Bridge Notes, if and when holders of a majority of the aggregate principal amount of January 2011 Notes and October 2011 Notes (on a combined basis) have converted their notes.

On June 1, 2012, the Company, having received on or prior to such date the consent of holders of October 2011 Notes in the aggregate principal amount of $1,860,000 (out of a total outstanding aggregate principal amount of $2,000,000), amended such notes to add a mandatory conversion provision to the terms of such notes. Under that provision, the October 2011 Notes would be automatically converted upon the closing of a public offering by the Company of shares of its securities with gross proceeds to the Company of at least $3 million (except for October 2011 Notes in the aggregate amount of $50,000 which were not subject to the mandatory conversion requirement upon a $3 million public offering, but rather a $5 million public 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. Pursuant to the agreements amending the October 2011 Notes, the exercise price of the warrants that were issued in connection with the notes would be adjusted to match such public offering price, if such price were lower than the exercise price then in effect. The warrants were also amended to remove the full-ratchet provision from the warrants for securities offerings occurring after any such public offering. The Company agreed to issue to each holder of the October 2011 Notes who executed the agreements, as consideration for the above, warrants 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. These warrants would be issued on or within 10 business days after any public offering.

(25) 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.

(26) The 2012 Bridge Notes: On August 17, 2012, the Company entered into a new Note Purchase Agreement (the "2012 Bridge Financing Purchase Agreement") in connection with a bridge financing (the "2012 Bridge Financing"), with SAIL Holdings LLC. The 2012 Bridge Financing Purchase Agreement initially provided for the issuance and sale of August 2012 Bridge Notes in the aggregate principal amount of up to $2,000,000, in one or multiple closings to occur no later than October 15, 2012. The consummation of the 2012 Bridge Financing and issuance of the August 2012 Bridge Notes, and corresponding security interest, had to be approved by the Majority Holders of each tranche of our October 2010 Notes, January 2011 Notes, October 2011 Notes and the Unsecured Note. If the Company did not obtain such consent, the holders could declare a default under such notes and seek all remedies available under such notes.

On October 19, 2012 the original 2012 Bridge Financing Purchase Agreement in connection with the 2012 Bridge Financing was amended and restated (the "Amended and Restated Bridge Financing Purchase Agreement") thereby extending the period for closing the sale of August 2012 Bridge Notes from October 15, 2012 to November 30, 2012. Additionally, the revised notes ("October 2012 Notes") eliminated the mandatory conversion provision (upon a subsequent equity financing) included in the August 2012 Bridge Notes at the request of a prospective investor. Otherwise the October 2012 Bridge Notes have substantially the same terms as the August 2012 Notes.

The Amended and Restated Bridge Financing Purchase Agreement provided for the issuance and sale of Bridge Notes in the aggregate principal amount of up to $2,000,000, in one or multiple closings to occur no later than November 30, 2012. Additionally this amended and restated agreement also provided for the reissuance and replacement of five August 2012 Notes with the revised October 2012 Notes. The Amended and Restated 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 August 2012 Bridge Notes.

The October 2012 Notes mature on the later of October 1, 2013 or one year from the date of issuance (subject to earlier conversion or prepayment), earn interest at a rate of 9% per year with interest payable at maturity, are convertible into shares of common stock of the Company at a conversion price of $0.04718 and are secured by a first position security interest in the Company's assets, with the security interest of all previously outstanding convertible promissory notes subordinated. 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; and (3) the distribution of other capital stock, indebtedness or other non-cash assets. The October 2012 Notes are convertible at any time at the option of their holders and can be declared due and payable upon an event of default, defined in the October 2012 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 2012 Notes or materially breaches any representation or warranty in the October 2012 Notes or the Bridge Financing Purchase Agreement. Among the restrictive covenants imposed on the Company pursuant to the Bridge Financing Purchase Agreement is a covenant not to borrow, guaranty or otherwise incur indebtedness that is senior or pari passu with the October 2012 Bridge Notes in excess of $250,000, and a covenant not to effect a merger, reorganization, or sell, exclusively license or lease, or otherwise dispose of any assets of the Company with a value in excess of $20,000, other than in the ordinary course of business.

The Company issued October 2012 Notes in the aggregate principal amount of $2.0 million. Furthermore, the consents to the 2012 Bridge Financing obtained from holders of previously outstanding convertible promissory notes have taken effect, since the Company raised more than $1.35 million in the 2012 Bridge Financing. Such consents had been given pursuant to the terms of the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement, dated as of October 24, 2012 (the "Consent Agreement"), between the Company and the holders of at least a majority in aggregate principal amount outstanding ("Majority Holders") of each tranche of the Company's secured convertible promissory notes issued in October and November 2010 (the "October 2010 Notes"), secured convertible promissory notes issued between January and April 2011 (the "January 2011 Notes"), secured convertible promissory notes issued between October 2011 and January 2012 (the "October 2011 Notes") and an unsecured convertible promissory note issued in February 2012 (the "February 2012 Note"). As a result, all of such notes were amended to (a) extend the maturity date of October 1, 2013, (b) set the conversion price at $1.00, subject to adjustment as provided in the notes and (c) remove full-ratchet anti-dilution protection. In addition, the holders forfeited the warrants they received in connection with the issuance of the notes, and consented to the 2012 Bridge Financing, the issuance of the October 2012 Notes and to the subordination of their notes to these October 2012 Notes.

The October 2012 Bridge Notes are secured by a first position security interest in the Company's assets, with the security interest of all previously outstanding convertible promissory notes subordinated. Holders of the October 2010 Notes would hold a second position security interest and holders of the January 2011 and October 2011 Notes would hold a third position security interest, in the assets of the Company. The security interests relating to all such notes will be governed by the second amended and restated security agreement, dated as of August 16, 2012, between the Company and David Jones, as administrative agent for the secured parties (the "Second Amended and Restated Security Agreement"), which replaces the security agreement entered into in September 2011. Until his resignation from the Board on November 30, 2012, David Jones was the Chairman of our Board of Directors and a limited partner and former managing partner of SAIL Venture Partners LP.

The Second Amended and Restated Security Agreement and the corresponding security interest terminate upon the earlier of (a) repayment of the notes and (b)(1) with respect to the August 2012 Bridge Notes, if and when the Majority Holders of August 2012 Bridge Notes have converted their notes into shares of common stock, (2) with respect to the October 2010 Notes, if and when the Majority Holders of October 2010 Notes have converted their notes into shares of common stock and (3) with respect to the January 2011 and October 2011 Notes, if and when holders of the Majority Holders of January 2011 and October 2011 Notes (on a combined basis) have converted their notes.

The agreement also provides that the Company and the holders of the August 2012 Bridge Notes will enter into a registration rights agreement covering the registration of the resale of the shares underlying the August 2012 Bridge Notes.

The Company recorded a beneficial conversion feature for the August 2012 Bridge Notes, in accordance with FASB ASC 470-20. The Company measures the embedded beneficial conversion feature by allocating a portion of the proceeds equal to the intrinsic value of the embedded beneficial conversion feature to additional paid-in capital. Intrinsic value is calculated as the difference between the effective conversion price and the fair value of the common stock into which the debt is convertible, multiplied by the number of shares into which the debt is convertible. A beneficial conversion feature totaling $400,000 was recorded as loan discount for fiscal year 2012. The loan discount is amortized over the life of the convertible note. For the three months ended December 31, 2012 $100,000 of amortization of loan discount was recorded as interest expense.

The Company did not record a beneficial conversion feature for the October 2012 Bridge Notes as a very low volume of shares traded on the open market during the period from October 1, 2012 through November 30, 2012, the date of the closing of the 2012 Bridge Financing. Management judged that the Company's stock was not actively traded as only $13,800 worth of stock was traded on 9 of 42 trading days during this period at prices ranging from $0.76 to $0.83. The contemporaneous bridge financing of $2 million of Senior Secured Convertible Notes ("October 2012 Notes") with a conversion price of $0.04718 involving accredited third party investors was considered a better determinant of fair value. Consequently, management's judgment was that the pricing of the October 2012 Notes at $0.04718 represented a better determinant of fair value of the convertible notes and therefore there was no beneficial conversion feature associated with the October 2012 Notes.

As of December 31, 2012 outstanding senior subordinated convertible promissory notes (October 2010 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 three months ended December 31, 2012 the Company amortized $0 of the debt discount.

As of December 31, 2012 outstanding subordinated secured convertible promissory notes (January 2011 Notes) were $2,500,000 and debt discount was $0. During the three months ended December 31, 2012 the Company amortized $0 of the debt discount.

As of December 31, 2012 outstanding subordinated secured convertible promissory notes (October 2011 Notes) were $2,000,000 and debt discount was $0. During the three months ended, December 31, 2012 the Company amortized $277,100 of the debt discount.

As of December 31, 2012 outstanding unsecured convertible promissory notes (Unsecured Bridge Notes) were $90,000 and debt discount was $0. During the three months ended December 31, 2012 the Company amortized $15,000 of the debt discount.

As of December 31, 2012 outstanding senior convertible promissory notes (August 2012 Bridge Notes) were $1,998,100 and debt discount was $270,200. During the three months ended December 31, 2012 the Company amortized $100,000 of the debt discount.

The combined outstanding senior secured, senior subordinated secured, subordinated secured and unsecured convertible promissory notes as of December 31, 2012 were $9,612,000 and debt discounts were $270,200. During the three months ended December 31, 2012 the Company amortized $392,100 of the debt discount.

## 5. STOCKHOLDERS' EQUITY

### Common and Preferred Stock

As of December 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 2,079,965.

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

As of December 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 September 19, 2012 the BluMont Capital Corp. ITF Northern Rivers Innovation RSP Fund converted $1,900 of their $50,000 August 2012 Note to 40,000 shares of common stock at a conversion price of $0.04718 per share.

As a condition of the November 28, 2012 closing of the 2012 Bridge Financing, the Company also entered into Employment Compensation Forfeiture and Exchange Agreements ("Forfeiture and Exchange Agreements") with three of its executive officers, George Carpenter, Paul Buck and Michael Darkoch. Pursuant to these agreements, the executives agreed to waive receipt of and release the Company from the payment of 50% of their salaries accrued from August 31, 2010 to September 30, 2012 (amount waived was $56,250 for George Carpenter, $66,083 for Paul Buck and $43,333 for Michael Darkoch), in consideration for which the Company agreed to issue to such executives a certain number of shares of its common stock (56,250 for George Carpenter, 66,083 for Paul Buck and 43,333 for Michael Darkoch). Any remaining accrued salary remains outstanding and shall be paid (i) from time to time at the discretion of the Board of Directors to the extent the Board of Directors determines that such payment will not jeopardize the ability of the Company to continue as a going concern; or (ii) upon the closing of any single financing transaction (including a single financing transaction that contemplates multiple closings) in which the Company receives proceeds of $5 million or more. Additionally, where applicable, the executives agreed to waive receipt of and release the Company from the payment of any previously approved bonus award. Under the agreements, the Company agreed to indemnify the executives for all federal and state income tax payable and actually paid by the executive related directly to the receipt of the common stock, the per share value of which is not expected to be more than the conversion price of the October 2012 Notes which is $0.04718 per share.

**Stock-Option Plan**

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

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 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"), reserved 333,334 shares of stock for issuance 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 2013 Annual Meeting of Stockholders. Absent stockholder approval, the options will be cancelled and the 2012 Plan will not become effective.

On December 10, 2012, the Board approved the amendment of the Company's 2012 Omnibus Incentive Compensation Plan (the "2012 Plan") to increase the shares authorized for issuance under the 2012 Plan from 333,334 shares to 5,500,000 shares and granted to each of its three existing members as well as to each of the four New Board Members options to purchase 250,000 shares of its common stock pursuant to the 2012 Plan at an exercise price of $0.04718 per share. The options vest evenly over 36 months starting from the date of grant. The Board furthermore granted to each of the five former directors who had departed the Board effective November 30, 2012, (i.e., George Carpenter, Henry Harbin, George Kallins, David Jones, and Maurice DeWald), options to purchase 25,000 shares of its common stock pursuant to the 2012 Plan at an exercise price of $0.04718 per share. These options to former directors are fully vested. Finally, the Board granted to the Company's executive officers options to purchase shares of its common stock pursuant to the 2012 Plan at an exercise price of $0.04718 per share as follows: George Carpenter 1,200,000 shares, Paul Buck 1,400,000 shares and Michael Darkoch 920,000 shares. These options vest in increments of 12.5% at the beginning of each quarter starting from the date of grant.

Based on the volume of shares traded on the open market, during the period October 1, 2012 through to December 10, 2012, the date of the option grant, management judged that the Company's stock was not actively traded as only $15,000 worth of stock was traded on 11 of 48 trading days during this period at prices ranging from $0.76 to $0.83. In a contemporaneous transaction, Senior Secured Convertible Notes ("October 2012 Notes") with a conversion price of $0.04718 were purchased by accredited third party investors. Given the very low volume of stock which was not actively traded, compared to the volume of October 2012 Notes purchased, management's judgment was that the pricing of the October 2012 Notes at $0.04718 represented a better determinant of fair value of the Company's common stock and the options granted on December 10, 2012.

As of December 31, 2012, 70,825 options were exercised and there were 501,924 options and 6,132 restricted shares outstanding under the amended 2006 Plan leaving 87,786 shares which will not be issued as the 2006 Plan is frozen. 5,437,670 options have been issued under the 2012 Plan, of which none have been exercised and 62,330 remain available for issuance subject to shareholder approval of the 2012 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 December 31, 2012 and 2011 is as follows:

| | For the three months ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Cost of Neurometric Services revenues | $ 2,500 | $ 2,500 |
| Research | 24,000 | 27,300 |
| Product Development | 19,000 | 16,900 |
| Sales and marketing | 54,500 | 48,800 |
| General and administrative | 255,500 | 240,000 |
| Total | $ 355,500 | $ 335,500 |

Total unrecognized compensation as of December 31, 2012 amounted to $1,461,247.

A summary of stock option activity is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at September 30, 2012 | 546,746 | $ 17.08 |
| Granted | 5,395,000 | 0.04718 |
| Exercised | - | - |
| Forfeited | (2,152) | 14.10 |
| Outstanding at December 31, 2012 | 5,939,594 | $ 1.61 |

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

| Exercise Price | Number of Shares | Weighted Average Contractual Life | Weighted Average Exercise Price |
|---|---|---|---|
| $ 0.04718 | 5,395,000 | 10 years | $ 0.04718 |
| $ 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 | 10,000 | 10 years | 14.10 |
| $ 15.30 | 1,373 | 10 years | 15.30 |
| $ 16.50 | 262,441 | 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 |
| Total | 5,939,594 | | $ 1.61 |

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 $3.00 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 Stock Incentive Plan, which is subject to approval by our stockholders, at a meeting of stockholders to be called as soon as practicable.

**Warrants to Purchase Common Stock**

The warrant activity for the period starting October 1, 2011, through December 31, 2012 are described as follows:

| Warrants | | Exercise Price | Issued, Surrendered or Expired in Connection With: |
|---|---|---|---|
| **980,390** | | | **Warrants outstanding at October 1, 2011** |
| 613,782 | $ | 3.00 | As a result of the issuance of October 2011 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 2011 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 | $ | 1.00 | 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. Effective on November 20, 2012 the holders of placement agent warrants agreed to remove the ratchet feature in exchange for lowering the conversion price to $1.00 per share down from $3.00 per share. This resulted in the elimination of warrant liabilities as of such date. |
| (2,823) | $ | 0.30 | Warrants were surrendered in a cash exercise for 2,823 shares. |
| 696,673 | $ | 3.00 | These warrants were issued to 11 investors who purchased notes for $2,000,000 pursuant to the 2011 Bridge Purchase Agreement described in note 4 were as follows:<br>1) Three October 2011 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.<br>2) Two October 2011 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.<br>3) An October 2011 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.<br>4) Three October 2011 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.<br>5) An October 2011 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.<br>6) 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.<br>7) Four October 2011 Notes in aggregate amount of $700,000 and a warrant to purchase 233,335 shares were issued to four new investors to the company. |
| 5,334 | $ | 1.00 | These warrants were issued to Monarch Capital who acted as placement agents in raising $80,000 from two investors who purchased October 2011 Notes pursuant to the 2011 Bridge Note January Purchase Agreement described in Note 4. Effective on November 20, 2012 the holders of placement agent warrants agreed to remove the ratchet feature in exchange for lowering the conversion price to $1.00 per share down from $3.00 per share. This resulted in the elimination of warrant liabilities as of such date. |
| 15,167 | $ | 1.00 | These warrants were issued to Innerkip Capital Management who acted as placement agents in raising $650,000 from three investors who purchased October 2011 Notes pursuant to the 2011 Bridge Note January Purchase Agreement described in Note 4. Effective on November 20, 2012 the holders of placement agent warrants agreed to remove the ratchet feature in exchange for lowering the conversion price to $1.00 per share down from $3.00 per share. This resulted in the elimination of warrant liabilities as of such date. |
| (175,195) | | $0.30 to $54.0 | Warrants expired |
| **2,164,440** | | | **Warrants outstanding at September 30, 2012** |
| (1,617,345) | $ | 3.00 | Warrants forfeited pursuant to the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement dated October 24, 2012 |
| **547,095** | | 8.09 | **Warrants outstanding at December 31, 2012** |

Pursuant to the Amended and Restate Consent, Note Amendment and Warrant Forfeiture Agreement dated October 24, 2012, between the Company and the holders of at least a majority in aggregate principal amount outstanding (“Majority Holders”) of each tranche of the Company’s convertible promissory notes issued (the October 2010 Notes, the January 2011 Notes, the October 2011 Notes and the February 2012 Note), all warrants issued to noteholders were forfeited.

Pursuant to the Agreement to Amend Placement Agent Warrants dated November 20, 2012, the placement agents who had received warrants as part of their fee associated with certain investors investing in the multiple abovementioned rounds of bridge notes agreed to remove the full ratchet provision of their warrants to purchase common stock in return for an adjustment in the exercise of those warrants from $3.00 down to $1.00. Warrants to purchase 67,170 shares of common stock were adjusted in this manner, which represents all the warrants which contained the full ratchet provision.

At December 31, 2012, there were warrants outstanding to purchase 547,095 shares of the Company’s common stock. The exercise price of the outstanding warrants range from $1.00 to $9.90 with a weighted average exercise price of $8.09. The warrants expire at various times starting 2012 through 2018.

## 6. RELATED PARTY TRANSACTIONS

As at September 30, 2011, accrued consulting fees included $45,000 due to Dr. Henry Harbin, at that point a director of the Company 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. As at December 31, 2012 we had accrued consulting fees of $90,000 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, was at that time 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 4 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 4 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 December 31, 2012 the Company had accrued $350,000 for the services provided by Equity Dynamics of which $155,000 has been paid, leaving $195,000 due and outstanding as at December 31, 2012. The initial term of the agreement was for 12 months from its initiation. The agreement 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 8,334 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 8,334 shares to a trust, the trustee of which is the father-in-law of the Company’s Chief Executive Officer, George Carpenter. For further detail, please refer to the section *2010, 2011 & 2012 Private Placement Transactions* in Note 4 above.

On February 23, 2011, an Unsecured 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 the Company and as a result of this purchase became a beneficial owner of more than 5% of our outstanding common stock). For further detail, please refer to the section *2010, 2011 & 2012 Private Placement Transactions* in Note 4 above.

On February 28, 2011, pursuant to the January Purchase Agreement, we issued to SAIL Venture Partners, LP January 2011 Notes in the aggregate principal amount of $187,500 and warrants to purchase up to 31,250 shares of common stock. Additionally, we issued to SAIL 2010 Co-Investment Partners, L.P., an affiliate of SAIL Venture Partners, LP January 2011 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. Our director, David Jones, was at that time, 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 66,667 shares of common stock to Pyxis 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). For further detail, please refer to the section *2010, 2011 & 2012 Private Placement Transactions* in Note 4 above.

On April 15, 2011, pursuant to the January Purchase Agreement, we issued to SAIL Venture Partners, LP additional January 2011 Notes in the aggregate principal amount of $250,000 and warrants to purchase up to 41,667 shares of common stock. Additionally, we issued to SAIL 2010 Co-Investment Partners, L.P. January 2011 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 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 2011 Notes in the aggregate principal amount of $125,000 and warrants to purchase up to 20,834 shares of common stock and issued to SAIL 2010 Co-Investment Partners, L.P. January 2011 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 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 a January 2011 Note in the aggregate principal amount of $150,000, and a warrant to purchase 25,000 shares of common stock to Cummings Bay Healthcare Fund which has the same fund manager as the Pyxis 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 2011 Notes”) amended all of the January 2011 Notes to, among other things, 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 2010 Notes”), amended all of the October 2010 Notes to, among other things, extend the maturity of such notes until October 1, 2012. These amendments are further described in Note 4 - *Convertible Debt and Equity Financings - 2010, 2011 & 2012 Private Placement Transactions.*

On October 18, 2011, CNS Response, Inc. issued October 2011 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 October 2011 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 October 2011 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 issued October 2011 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 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 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, 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.

On April 26, 2012 and on May 25, 2012 we received two short-term, interest free loans of $100,000 each from John Pappajohn for the purpose of funding offering costs and other sundry operating expenses. These loans were initially evidenced by two demand notes and subsequently exchanged for October 2012 Notes.

On August 17, 2012, pursuant to the August 2012 purchase agreement, we issued to SAIL Holdings, LLC on August 2012 Note in the aggregate principal amount of $100,000. We received $100,000 from SAIL Holding, LLC in gross proceeds.

On August 21, 2012 and September 9, 2012 pursuant to the August 2012 purchase agreement, we issued the Thomas T. and Elizabeth C. Tierney Family Trust two August 2012 Notes in the aggregate principal amount of $200,000. Mr. Tierney is a trustee of his family trust and he is also a limited partner of SAIL Venture Partners, LP.

On August 22, 2012, pursuant to the August 2012 purchase agreement, we issued to Dr. Meyer Proler an August 2012 Note in the aggregate principal amount of $50,000. We received $50,000 from Dr. Proler in gross proceeds.

On August 8, 2012 and September 6, 2012 two October 2012 Notes in the aggregate principal amount of $200,000 were issued in exchange for cash to the Thomas T. and Elizabeth C. Tierney Family Trust (the "Tierney Family Trust"), an accredited investor, of which Thomas T. Tierney is a trustee. Mr. Tierney is a Director Nominee and a greater than 5% beneficial owner of the Company.

On October 19, 2012, an October 2012 Note in the aggregate principal amount of $200,000 was issued in exchange for cash to the Trust of Robert J. Follman and Carole A. Follman, dated August 14, 1979 (the "Follman Trust"), an accredited investor, of which Robert J. Follman is a trustee. Mr. Follman is a Director Nominee and a greater than 5% beneficial owner of the Company.

On October 25, 2012, an October 2012 Note in the aggregate principal amount of $200,000 was issued in exchange for cash to Extuple Limited Partnership ("Extuple"), an accredited investor, of which Philip Deck is the managing partner. Extuple is a greater than 5% beneficial owner of the Company.

On October 26, 2012 we issued three October 2012 Notes for the aggregate amount of $90,000 in exchange for cash to the following SAIL entities:- SAIL 2010 Co-Investment Partners, LP, $20,000; SAIL 2011 Co-Investment Partners, LP, $20,000; SAIL Venture Partners II, LP $50,000.

On November 28, 2012, an October 2012 Note in the aggregate principal amount of $500,000 was issued to Mr. Pappajohn in exchange for $300,000 cash and the two short-term loans aggregating $200,000 from which were issued on April 26, 2012 and May 25, 2012 in exchange for cash as mentioned above.

Also on November 28, 2012, we issued October 2012 Notes in the aggregate principal amount of $50,000 to Mr. Carpenter in exchange for cash.

On November 29, 2012, an October 2012 Note in the aggregate principal amount of $250,000 was issued in exchange for cash to Mark and Jill Oman, who are accredited investors and are greater than 5% beneficial owners of the Company.

Also on November 29, 2012, an October 2012 Note in the aggregate principal amount of $100,000 was issued in exchange for cash to Ronald Dozoretz MD, an accredited investor who has previously invested in the Company and is a greater than 5% beneficial owner of the Company.

Also on November 28, 2012, we issued an additional October 2012 Note in the principal amount of $25,000 to Andy Sassine in exchange for cash. Mr. Sassine is a Director Nominee and a greater than 5% beneficial owner of the Company.

On November 30, 2012, we issued a $60,000 October 2012 Note to Mr. Hopfenspirger in exchange for cash. As of December 31, 2012, Mr. Hopfenspirger holds October 2011 Notes and an October 2012 Note in the aggregate principal amount of $150,000 and is a greater than 5% beneficial owner of the Company.

On November 28, 2012, pursuant to the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement dated October 24, 2012, between the Company and the holders of at least a majority in aggregate principal amount outstanding ("Majority Holders") of each tranche of the Company's convertible promissory notes issued (the October 2010 Notes, the January 2011 Notes, the October 2011 Notes and the February 2012 Note), all of such notes were amended to (a) extend the maturity date of October 1, 2013, (b) set the conversion price at $1.00, subject to adjustment as provided in the notes and (c) remove full-ratchet anti-dilution protection. In addition, the holders forfeited the warrants they received in connection with the issuance of the notes, and consented to the 2012 Bridge Financing, the issuance of the October 2012 Notes and to the subordination of their notes to these October 2012 Notes.

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 from 2010, and the corresponding security interest terminate (1) with respect to the October 2010 Notes, if and when holders of a majority of the aggregate principal amount of October 2010 Notes issued have converted their notes into shares of common stock and, (2) with respect to the January 2011 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 2011 Notes and October 2011 Notes (on a combined basis) have converted their notes. This agreement was subsequently superseded in its entirety by the Second Amended and Restated Security Agreement, dated as of August 16, 2012, between the Company and Mr. David Jones, as administrative agent for the secured parties. The Second Amended and Restated Security Agreement governs the security interests relating to all abovementioned notes and the new August 2012 Bridge Notes. Mr. Jones was at that time the Chairman of our Board of Directors and is a limited partner and former managing partner of SAIL Venture Partners LP.

The terms of the October 2010 Notes, January 2011 Notes, 2011 Bridge Notes, Unsecured Note and August 2012 Bridge Notes 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 4.

## 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 ended December 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.

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

| | Three months ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| Net Loss for computation of basic net loss per share: | | |
| From continuing operations | $ (961,100) | $ (2,587,200) |
| From discontinued operations | $ (12,200) | $ (144,100) |
| Net loss | $ (973,300) | $ (2,731,300) |
| Basic net loss per share: | | |
| From continuing operations | $ (0.47) | $ (1.38) |
| From discontinued operations | $ (0.01) | $ (0.08) |
| Basic net loss per share | $ (0.48) | $ (1.46) |
| Net Loss for computation of dilutive net loss per share: | | |
| From continuing operations | $ (961,100) | $ (2,587,200) |
| From discontinued operations | $ (12,200) | $ (144,100) |
| Net loss | $ (973,300) | $ (2,731,300) |
| Diluted net loss per share: | | |
| From continuing operations | $ (0.47) | $ (1.38) |
| From discontinued operations | $ (0.01) | $ (0.08) |
| Basic net loss per share | $ (0.48) | $ (1.46) |
| | | |
| Basic weighted average shares outstanding | 2,024,619 | 1,873,583 |
| Dilutive common equivalent shares | - | - |
| Diluted weighted average common shares | 2,024,619 | 1,873,583 |
| | | |
| Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share: | | |
| Convertible debt | 36,968,562 | 55,661,260 |
| Warrants | 1,086,210 | 49,730,941 |
| Options | 4,142,695 | 15,714,871 |

## 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, the Supreme Court of the State of Delaware and the United States District Court for the Central District of California. Other than current actions described below, the Company has prevailed in all actions or the matters have been 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. Mr. Brandt is seeking approximately $170,000 of severance and compensatory and punitive damages in connection with his termination. In interrogatory responses served on January 26, 2013, Mr. Brandt for the first time identified that he seeks damages in connection with his termination exceeding $9,000,000. Mr. Brandt has proffered no credible evidence to support damages in this amount, and the Company believes this claim for damages is without merit. The plaintiffs also 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 and restitution of the loan amount. The Company was served with a summons and complaint in the action on July 19, 2011. On November 1, 2011, Mr. Brandt and Brandt Ventures 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, the plaintiffs filed a second amended complaint that modifies certain of their claims, but does not add new claims. The Company believes the second amended complaint, like the prior complaints, is devoid of merit. On February 6, 2013, the plaintiffs moved for leave to amend the second amended complaint and file a third amended complaint. The proposed third amended complaint would add a claim for breach of the promissory note and seeks to foreclose on the collateral securing the note obligation. The Company is opposing the motion and continues to aggressively defend the action. The Company believes the third amended complaint, like the prior complaints, is without merit. 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.

**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 $4,100.

The Company leases space for its Clinical Services, our discontinued 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 $22,100 for the fiscal year 2013. As the Company discontinued these operations, it fully accrued the remaining outstanding balance of the lease as of September 30, 2012.

The Company incurred rent expense from continuing operations of $10,900 and $10,900 for the three months ended December 31, 2012 and 2011, respectively. Rent expense from discontinued operations was $0 and $16,600 for the three months ended December 31, 2012 and 2011.

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 December 31, 2012 the remaining lease obligation is $8,700: being $4,900 and $3,800 for fiscal years 2013 and 2014 respectively.

## 9. SUBSEQUENT EVENTS

Events subsequent to December 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 December 31, 2012.

On January 29, 2012, we signed a 12 month extension to our lease for our current location at 85 Enterprise, Suite 410, Aliso Viejo, CA 92656. The lease period starts on February 1, 2013 and ends January 31, 2014. The monthly rent remains the same as our 2012 monthly rate at $4,147 with the 9th month of the lease, October 2013, being a rent-free month.

On February 6, 2013, the Company filed with the Securities and Exchange Commission ("SEC") Schedule 14f-1 in connection with the change in a majority of the Board. The 14f-1 was mailed to stockholders of record by February 13, 2013. On December 10, 2012, the Company's Board had approved the appointment of Richard W. Turner, Robert J. Follman, Andrew H. Sassine and Thomas T. Tierney (collectively, the "New Board Members") to the Board of the Company to fill vacancies. The New Board Members are expected to take office as directors no earlier than February 24, 2013. Messrs. Turner and Sassine were appointed to the Board as nominees of Equity Dynamics, Inc. ("Equity Dynamics"), an entity owned by Board member John Pappajohn, pursuant to the terms of the governance agreement, dated November 28, 2012, between the Company and Equity Dynamics. Messrs. Tierney and Follman were appointed to the Board as nominees of SAIL Capital Partners, which is affiliated with Board member Walter Schindler, pursuant to the terms of the governance agreement, dated November 28, 2012, between the Company and SAIL Capital Partners.

As of February 13, 2013, holders of convertible notes in the aggregate principal amount of $1,922,600 and $238,500 of interest thereon have exercised their conversion to 16,102,902 shares of common stock. Of these conversions $672,600 were of October 2012 Notes together with interest of $18,700 converted into 14,633,086 shares of common stock at a conversion price of $0.04718. The remaining conversions were of $1,250,000 of October 2010 Notes and January 2011 Notes together with interest of $219,800 converted into 1,469,816 shares of common stock at a conversion price of $1.00. Of these conversions, 4,300,551 shares were converted by John Pappajohn, a director of the Company; 5,631,699 shares were converted by Walter Schindler, a director of the Company, on behalf of the various SAIL entities, and 4,403,349 shares were converted by Thomas Tierney, a director nominee and trustee of the Tierney Family Trust.

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

*The information contained in this Form 10-Q is intended to update the information contained in our Annual Report on Form 10-K for the year ended September 30, 2012 and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis or Plan of Operation" and other information contained in such Form 10-K. The following discussion and analysis also should be read together with our consolidated financial statements and the notes to the consolidated financial statements included elsewhere in this Form 10-Q.*

*This discussion summarizes the significant factors affecting the condensed consolidated operating results, financial condition and liquidity and cash flows of CNS Response, Inc. for the three months ended December 31, 2012 and 2011. Except for historical information, the matters discussed in this management's discussion and analysis or plan of operation and elsewhere in this Quarterly Report on Form 10-Q, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new products or services; our statements concerning litigation or other matters; statements concerning projections, predictions, expectations, estimates or forecasts for our business, financial and operating results and future economic performance; statements of management's goals and objectives; trends affecting our financial condition, results of operations or future prospects; our financing plans or growth strategies; and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements.*

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

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

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

### Overview

We are is a clinical decision support Company with a commercial neurometric platform to predict drug response for treatment of brain disorders, including depression, anxiety, bipolar disorder and post-traumatic stress disorder. We are commencing a reimbursed 2,000 patient trial at Walter Reed National Military Medical Center ("Walter Reed" or "WRNMMC") focused on patients with depression, post-traumatic stress disorder ("PTSD") and mild traumatic brain injury ("mTBI") in order to support clinical decisions in the treatment of depression and related disorders. We will be reimbursed by Walter Reed at our standard rate for each PEER Outcome report rendered in the study. PEER stands for Psychiatric EEG Evaluation Registry ("PEER").

#### *Neurometric Information Services*

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

We believe that our technology offers an improvement over traditional methods for evaluating pharmacotherapy options in patients suffering from non-psychotic behavioral disorders, because our technology is designed to correlate the success of courses of medication with the neurophysiological characteristics of a particular patient. Our technology provides medical professionals with medication sensitivity data for a subject patient based upon the identification and correlation of treatment outcome information from other patients with similar neurophysiologic characteristics. This treatment outcome information is contained in what we believe to be the largest outcomes database for mental health care pharmacotherapy there are now over 34,000 outcomes within the database from over 9,000 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 describing effective medications for patients suffering from debilitating behavioral disorders.

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

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

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

***Clinical Services- Discontinued Operation***

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 operated one of the larger psychiatric medication management practices in the state of Colorado, with five full time and six 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, served 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. However, due to the Company's inability to raise sufficient funding and due to NTC's continued operating losses, it was decided to discontinue the operations of NTC effective September 30, 2012, as the Company chose to focus its limited cash resources on its Walter Reed clinical trial. Consequently, NTC is accounted for as a discontinued operation.

**Working Capital**

We are unable to pay our obligations as they become due and we are in arrears on paying many of our creditors. If we are not able to raise additional funds immediately and reach some accommodations with our creditors, we will likely be required to cease our operations.

Since our inception, we have generated significant net losses. As of December 31, 2012, we had an accumulated deficit of approximately $46.6 million, and as of December 31, 2011, our accumulated deficit was approximately $44.9 million. We incurred operating losses of $0.7 million and $1.3 million for the three months ended December 31, 2012 and 2011 respectively and incurred net losses of $1.0 million and $2.7 million for those respective periods. Assuming we are able to continue our operations, we expect our net losses to continue for at least the next couple of years. We anticipate that a substantial portion of any capital resources and efforts would be focused on our clinical trial expected to be conducted at Walter Reed National Military Medical Center ("Walter Reed"), followed by the scale-up of our commercial organization, further research, product development and other general corporate purposes. We anticipate that future research and development projects would be funded by grants or third-party sponsorship, along with funding by the Company.

As of December 31, 2012, our current liabilities of approximately $14.6 million exceeded our current assets of approximately $0.9 million by approximately $13.7 million and, assuming we are able to continue our operations, our net losses will continue for the foreseeable future. As part of the $14.6 million of current liabilities we have approximately $9.6 million of secured convertible debt which is discounted to $9.3 million. This includes a $2 million round of convertible bridge note financing which we closed on at November 30 2012. We will need additional funding to complete our clinical trial at Walter Reed, plus substantial additional funding before we can significantly increase the demand for our PEER Online services. In addition, we will have to repay all our outstanding notes plus interest starting October 1, 2013 unless the note holders convert to common stock. Since December 31, 2012, five note holders have converted approximately $2.2 million of notes and interest to common stock.

We are actively exploring additional sources of capital; however, we cannot offer assurances that additional funding will be available on acceptable terms, or at all, especially given the economic and market conditions that currently prevail and the Company's failure to consummate the public offering of securities it had pursued during fiscal 2012. Even if we were to raise additional funds, any additional equity funding may result in significant dilution to existing stockholders, and, if we incur additional debt financing, a substantial additional 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, it will likely force us to cease operations or would otherwise have a material adverse effect on our business, financial condition and/or results of operations.

**Recent Developments**

On January 23, 2013, we received a memorandum from the Commander, Walter Reed National Military Medical Center ("WRNMMC" or "Walter Reed"). The memorandum officially confirmed the approval on November 30, 2012, by the WRNMMC Institutional Review Board, of the Company's protocol to conduct a multi-site clinical trial. The project title of the clinical trial is "Use of PEER Interactive to inform the prescription of psychotropic medications to patients with behavioral disorders."

During the clinical trial at Walter Reed and Fort Belvoir Community Hospital ("Fort Belvoir"), military physicians will treat 2,000 volunteer study patients with a primary diagnosis of depression. The patients may also have comorbid disorders such as post-traumatic stress disorder (PTSD), mild traumatic brain injury (mTBI), and other psychiatric disorders. Additional sites, including at least one region of the Veterans Administration, are anticipated during 2013. The Henry M. Jackson Foundation has joined the Company as a research partner, providing clinical trial support in all locations.

The clinical trial is a prospective, randomized, multi-site, double blind study of the utility of PEER Interactive in improving medication outcomes in mental health and will commence during February 2013 and enroll patients throughout the year. We anticipate analysis of the interim data by the end of 2013. The military will pay $540 per PEER Report generated for the trial. We have located EEG equipment at both Walter Reed and Fort Belvoir. Col (Ret) Stewart Navarre, who is our Vice President of Government Accounts, has relocated to Bethesda, MD, to oversee the clinical trial.

During 2011 and 2012 we released the results of several studies which had been conducted during the year as follows:

The correlation of Quantitative EEG variables with individual medication outcomes has become a well-established scientific principle over the past two decades, as documented in 60 studies involving over 2,000 patients.

***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.

***Commercial Payer Analysis:*** During 2011, a retrospective analysis was conducted of physician reports and health records of patients who were members of several of the nation's largest managed care networks. The results were 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 the 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, M.D. 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:
  - 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.
  - 69% of the patients achieved Maximum Medical Improvement (MMI) in an average of four visits.
  - Out of 68 (26%) patients who had reported suicidality preceding their PEER Outcome Report, nine (4%) reported 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 compared to 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 compared to 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 compared to 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 (multiple medications) 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.

**2010, 2011 & 2012 Private Placement Transactions**

From June 3, 2010 through to November 12, 2010, we raised $3.0 million through the sale of senior secured convertible notes ("October 2010 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 2011 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 ("October 2011 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 warrants. This note was purchased by an affiliate company of a member of our Board of Directors.

From August 17, 2012 through November 30, 2012, we raised an additional $2,000,000 through the sale of senior secured convertible promissory notes ("October 2012 Notes"). Of such amount $690,000 was purchased by members of our Board of Directors or their affiliate companies, $425,000 was purchased by Director Nominees and $50,000 was purchased by the President and Chief Executive Officer of the Company.

Refer to *Note 4. Convertible Debt and Equity Financings to the Consolidated Financial Statements* for details of the abovementioned transactions.

From January 1, 2013 through to February 13, 2013, holders of convertible notes in the aggregate of $1,922,600, and $238,500 of interest thereon, have converted their notes into 16,102,902 shares of common stock. Of these conversions $672,600 were of October 2012 Notes together with interest of $18,700 converted into 14,633,086 shares of common stock at a conversion price of $0.04718. The remaining conversions were of $1,250,000 of October 2010 Notes and January 2011 Notes together with interest of $219,800 converted into 1,469,816 shares of common stock at a conversion price of $1.00. Of these conversions, 4,300,551 shares were converted by John Pappajohn a director of the Company; 5,631,699 shares were converted by Walter Schindler, also a director of the Company, on behalf of the various SAIL entities, and 4,403,349 shares were converted by Thomas Tierney, a director nominee and trustee of the Tierney Family Trust.

**Change in a Majority of our Board of Directors**

In connection with our 2012 Bridge Financing, we entered into Governance Agreements with Equity Dynamics, owned by our director John Pappajohn, and SAIL Capital Partners, one of our principal stockholders, pursuant to which (i) on November 18, 2012, Henry Harbin resigned from the Board of Directors, (ii) effective November 28, 2012, the Board of Directors appointed Walter Schindler, one of four managing members of SAIL Venture Partners, LLC and the managing member of four additional entities affiliated with SAIL Capital Partners, to fill the resulting vacancy, (iii) effective November 30, 2012, George Carpenter, George Kallins, David Jones, and Maurice DeWald resigned from the Board of Directors (Mr. Carpenter retains his position as Chief Executive Officer of the Company) and (iv) on December 10, 2012, the Board of Directors approved the appointment of Richard W. Turner, Robert J. Follman, Andrew H. Sassine and Thomas T. Tierney (collectively, the "New Board Members") to the Board of Directors to fill the resulting vacancies. The New Board Members are expected to take office as directors no earlier than February 24, 2013.

Messrs. Turner and Sassine are being appointed to the Board to join Mr. Pappajohn and Zachary McAdoo as nominees of Equity Dynamics pursuant to the terms of the Governance Agreement between the Company and Equity Dynamics. Messrs. Tierney and Follman are being appointed to the Board to join Mr. Schindler as nominees of SAIL Capital Partners pursuant to the terms of the Governance Agreement between the Company and SAIL Capital Partners.

Pursuant to the Governance Agreements, we will therefore experience a change in a majority of our Board of Directors, effective no earlier than February 24, 2013.

In the Governance Agreements with Equity Dynamics and SAIL Capital Partners the Company agreed, subject to providing required notice to stockholders, to appoint a certain number of persons nominated by Equity Dynamics and SAIL Capital Partners to the Company's Board of Directors and to create vacancies for that purpose, if necessary. The number of persons to be nominated by Equity Dynamics and SAIL Capital Partners pursuant to this provision is four and three, respectively. In addition, at each meeting of stockholders of the Company at which directors are nominated and elected, the Company agreed to nominate for election four designees of Equity Dynamics and three designees of SAIL Capital Partners and to take all necessary action to support their election and oppose any challenges to such designees. Under the terms of the agreements, the Company may not increase the number of directors to more than seven without the consent of Equity Dynamics and SAIL Capital Partners. The Governance Agreements terminate in the event of the sale of substantially all of the Company's assets or a change of control, or upon any issuance of securities by the Company to parties not including Equity Dynamics and SAIL Capital Partners, from which the Company receives gross proceeds of at least $10 million.

**Financial Operations Overview**

*Revenues*

Our Neurometric 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, which is now accounted for as a discontinued operation, was generated as a result of providing services to patients on an outpatient basis. Patient service revenue was recorded at our established billing rates less contractual adjustments. Generally, collection in full was not expected on our established billing rates. Contractual adjustments were recorded to state our patient service revenue at the amount we expected 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 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, is now accounted for as a discontinued operation.

*Research and Development*

Research and development expenses are associated with our Neurometric 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 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.

*General and Administrative*

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

*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.

*Discontinued Operation*

Due to our cessation of our Clinical Services operation as described in Note 3 to our consolidated financial statements, we have segregated the revenues and expenses associated with the Clinical Services and accounted for them as discontinued operations.

*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 were recognized when the services were 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.

Based on the volume of shares traded on the open market, during the period October 1, 2012 through to December 10, 2012, the date of the option grant, management judged that the Company's stock was not actively traded as only $15,000 worth of stock was traded on 11 of 48 trading days during this period at prices ranging from $0.76 to $0.83. In a contemporaneous transaction, Senior Secured Convertible Notes ("October 2012 Notes") with a conversion price of $0.04718 were purchased by accredited third party investors. Given the very low volume of stock actively traded, compared to the volume of October 2012 Notes purchased, management's judgment was that the pricing of the October 2012 Notes at $0.04718 represented a better determinant of fair value of the Company's common stock and the options granted on December 10, 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.

*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 three months ended December 31, 2012 and 2011**

Since closing our Clinical Services operation in September, 2012, we now only operate our Neurometric Services business which is focused 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.

For October and November of 2012, the Company's operations slowed down significantly due the severe lack of cash resources. This situation was temporarily rectified upon the completion of our $2 million 2012 Bridge Financing, which was completed at the end of November 2012. During this period, the Company focused solely on the planning and approval for the Walter Reed clinical trial and on obtaining the necessary financing for its implementation. The Company will need to raise additional funds to run and complete this very important clinical trial.

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

| | Three months ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Revenues | 100% | 100% |
| Cost of revenues | 111 | 123 |
| Gross profit | (11) | (23) |
| Research | 198 | 218 |
| Product development | 309 | 352 |
| Sales and marketing | 324 | 894 |
| General and administrative expenses | 1,636 | 2,527 |
| Operating loss | (2,478) | (4,014) |
| Other income (expense), net | (927) | (4,069) |
| Net income (expense) before Discontinued Operations | (3,405) | (8,083) |
| Loss from Discontinued Operations | (43) | (450) |
| Net income (loss) | (3,451)% | (8,533)% |

*Revenues*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Neurometric Service Revenues | $ 28,200 | $ 32,000 | (12)% |

With respect to our Neurometric Services business, the number of third party paid PEER Reports delivered decreased from 97 for the three months ended December 31, 2011, to 71 for the three months ended December 31, 2012. The average revenue per report stayed constant at approximately $397 per test. Our discontinued Clinical Services operation ordered no PEER Reports during this 2012 period, but had ordered 14 reports during the same period in 2011. The total numbers of free PEER Reports processed were 5 and 37 for the periods ended 2012 and 2011 respectively. These free PEER Reports are used for training, database-enhancement and compassionate-use purposes. The slowdown in operations for the 2012 period was due to the lack of funds prior to our completion of our 2012 Bridge Financing at the end of November 2012.

*Cost of Revenues*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Cost of revenues for Neurometric Services | $ 31,400 | $ 39,200 | (20)% |

Cost of Neurometric Services revenues consisting of payroll costs, consulting costs, and other miscellaneous charges were as follows:

| Key Expense Categories | Three months ended December 31, 2012 | 2011 | Change |
|---|---|---|---|
| (1) Salaries and benefit costs | $ 27,500 | $ 27,900 | $ (400) |
| (2) Consulting fees | 3,900 | 10,600 | (6,700) |
| (3) Other miscellaneous costs | 0 | 700 | (700) |
| Total Costs of Revenues | $ 31,400 | $ 39,200 | $ (7,800) |

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.

(1) Salary and benefit expenses for the 2012 and 2011 periods remained substantially the same, however, for the 2012 period 67% of the salary was paid in cash and 33% of the salary was accrued as a result of the Company's limited cash resources.
(2) Consulting fees declined for the 2012 quarter, partly due to a slowdown of operations due to the lack of funds during this period.
(3) Other miscellaneous costs declined for the 2012 quarter as a result of the slowdown of operations due to the lack of funds.

*Research*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Neurometric Services Research | $ 55,800 | $ 69,700 | (20)% |

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:

| Key Expense Categories | Three months ended December 31, 2012 | 2011 | Change |
|---|---|---|---|
| (1) Salary and benefit costs | $ 51,200 | $ 59,600 | $ (8,400) |
| (2) Consulting fees | 3,000 | 3,100 | (100) |
| (3) Other miscellaneous costs | 1,600 | 7,000 | (5,400) |
| Total Research | $ 55,800 | $ 69,700 | $ (13,900) |

Comparing the three months ended December 31, 2012 with the corresponding period in 2011:

(1) Salary and benefit costs decreased for the 2012 quarter as we renegotiated our arrangement with Dr. Hoffman to be our part-time medical director, which resulted in a slight reduction in salary and benefit costs;
(2) Consulting costs remained substantially the same;
(3) Other miscellaneous costs were reduced as travel related expenses were curtailed for the 2012 period.

*Product Development*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Neurometric Services Product Development | $ 87,100 | $ 112,500 | 23% |

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:

| Key Expense Categories | Three months ended December 31, 2012 | 2011 | Change |
|---|---|---|---|
| (1) Salaries and benefit costs | $ 64,000 | $ 52,400 | $ 11,600 |
| (2) Consulting fees | (11,300) | - | (11,300) |
| (3) System development costs | 27,700 | 53,900 | (26,200) |
| (4) Other miscellaneous costs | 6,700 | 6,200 | 500 |
| Total Product Development | $ 87,100 | $ 112,500 | $ (25,400) |

Comparing the three months ended December 31, 2012 with the corresponding period in 2011:

(1) Salaries and benefits increased for the 2012 period due to an increase in stock-based compensation and health insurance costs. Salaries remained the same for the two periods, however for the 2012 period, 67% of the salary is paid in cash and 33% is accrued due to the Company's limited cash resources;
(2) Consulting fees decreased for the 2012 period as previously accrued consulting expenses were renegotiated in favor of future stock compensation. Consequently, the accrued expenses were reversed which resulted in the credit balance shown;
(3) System development and maintenance costs decreased for the 2012 period as no major new development of the system was undertaken during this period. However, expenditure was focused on clinical study software to be used in the Walter Reed clinical trial. In the 2011 period we had initiated major upgrades to the PEER Online system with the development of the Physician's Portal to provide greater web-enabled capabilities and the conversion to the newer Neuroguide platform, which provides superior capabilities to the PEER Online system;
(4) Other miscellaneous costs remained substantially the same for the two periods.

*Sales and marketing*

| | Three months ended December 31, 2012 | 2011 | Percent Change |
|---|---|---|---|
| Sales and Marketing | | | |
| Neurometric Services | $ 91,500 | $ 286,200 | (68)% |

Sales and marketing expenses associated with our Neurometric Services business consist primarily of payroll and benefit costs, including stock-based compensation, advertising and marketing, consulting fees and conference and travel expenses.

| Key Expense Categories | Three months ended December 31, 2012 | 2011 | Change |
|---|---|---|---|
| (1) Salaries and benefit costs | $ 82,900 | $ 177,700 | $ (94,800) |
| (2) Consulting fees | 2,200 | 55,200 | (53,000) |
| (3) Advertising and marketing costs | 0 | 27,700 | (27,700) |
| (4) Conferences and travel costs | 3,700 | 21,100 | (17,400) |
| (5) Other miscellaneous costs | 2,700 | 4,500 | (1,800) |
| Total Sales and marketing | $ 91,500 | $ 286,200 | $ (194,700) |

Comparing the three months ended December 31, 2012, with the same period in 2011:

(1) Salaries and benefits decreased for the 2012 period as our Executive Vice President of Marketing left the Company; he continues to be a resource to the Company on a consulting basis. Secondly, compensation that had been accrued in a prior period was forfeited in exchange for common stock. This adjustment resulted in a decline of roughly $40,000 in this line item. During the 2012 period 67% of the salaries that are being paid in cash and 33% are being accrued due to the limited cash resources.
(2) Consulting fees decreased for the 2012 period as the Company cut back on all marketing consulting services due the limited cash resources available;
(3) Advertising and marketing expenses in the 2012 period were curtailed due to the limited cash resources available. In the 2011 period, we incurred $26,000 as part of a marketing/economic analysis undertaken with Medco Health Solutions;
(4) Conference and travel related expenditures were curtailed for the 2012 period compared to the 2011 period, during which time we had increased travel associated with the Walter Reed project;
(5) Miscellaneous expenditures for the 2012 period decreased from the prior period as expenses were kept to a minimum due the limited cash resources available;

*General and administrative*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| General and administrative | | | |
| Neurometric Services | $ 461,300 | $ 808,700 | (43)% |

General and administrative expenses for our Neurometric 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.

| Key Expense Categories | Three months ended December 31, 2012 | 2011 | Change |
|---|---|---|---|
| (1) Salaries and benefit costs | $ 258,900 | $ 399,500 | $ (140,600) |
| (2) Legal fees | 27,100 | 131,600 | (104,500) |
| (3) Other professional and consulting fees | 98,600 | 122,500 | (23,900) |
| (4) Patent costs | 2,100 | 46,900 | (44,800) |
| (5) Marketing and investor relations costs | 1,300 | 4,700 | (3,400) |
| (6) Conference and travel costs | 10,100 | 33,400 | (23,300) |
| (7) Dues & subscriptions fees | 14,100 | 13,500 | 600 |
| (8) General admin and occupancy costs | 49,100 | 56,600 | (7,500) |
| Total General and administrative costs | $ 461,300 | $ 808,700 | $ (347,400) |

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

(1) Salaries and benefit expenses decreased for the 2012 period as $133,000 of previously accrued salaries and bonuses were forfeited by the CEO and CFO in exchange for common stock. During the 2012 period 67% of the salaries were paid in cash and 33% were accrued due to the limited cash resources;
(2) Legal fees showed a net decrease for the 2012 period; this was partly due to the mix of legal services used. The Brandt litigation costs decreased by $55,000. Other legal fees were also reduced as the Company minimized all expenditure during this quarter for financial reasons;
(3) Professional and consulting fees decreased due to the mix of consulting services used in the respective periods. The decrease for the 2012 period was due to the fees of our clinical trial/FDA consulting firm being charged to general and administrative expenses in the 2011 period and subsequently being moved to our product development cost center in the 2012 period;
(4) Patent costs decreased largely due to the timing of patent application and maintenance costs which were deferred whenever possible due to the limited cash resources available; no patents or applications lapsed due to delayed payment of maintenance or application fees.
(5) Corporate marketing and investor relations expenses declined for the 2012 period due to limited cash resources available;
(6) Conference and travel costs were curtailed for the 2012 period due to limited cash resources available;
(7) Dues and subscriptions remained substantially unchanged for the two periods;
(8) General administrative and occupancy cost declined for the 2012 period due to reductions in insurance costs and general costs.

*Other Expenses*

| Other Expenses | Three months ended December 31, 2012 | 2011 | Percent Change |
|---|---|---|---|
| Neurometric Services (expense), net | $ (261,400) | $ (1,302,000) | (80)% |

For the three months ended December 31, 2012 and 2011 net other non-operating income for Neurometric Information Services was as follows:

- For the 2012 period we incurred non-cash interest charges totaling $598,400 of which $205,500 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $392,100 of warrant discount amortization on the derivative liability for warrants; only $800 was for actual net interest paid in cash for the period. For the 2011 period non-cash interest charges totaled $1,487,700, of which $138,900 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $1,345,200 of warrant discount amortization on derivative liability for warrants and note conversions; only $3,400 was for actual net interest paid in cash for the period.

- For the 2012 period we incurred finance fees totaling $31,700, which was paid in cash, in association with our private placement of convertible notes. For the 2011 period, finance fees totaled $45,300 in association with our private placement of convertible notes. Of these finance fees $39,600 were paid in cash and $5,700 was the fair value of warrants that were issued to the placement agent.

- For the three months ended December 31, 2012, we incurred no offering costs, whereas for the same period in 2011 we incurred offering costs of $6,800 related to our Canadian and United States 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 the three months ended December 31, 2012 resulted in a non-cash loss of $97,600. For the same period in 2011 we had a non-cash gain of $232,100 on the valuation derivative liabilities. The Company experienced substantial changes in the valuation of derivative liabilities from quarter to quarter as a result of the volatility in its stock price. However since all ratchet features have been removed from the convertible notes and all the note-related warrants have been forfeited pursuant to the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement which was agreed to by the majority of each tranche of noteholders, there will be no US GAAP requirement for derivative accounting in the foreseeable future.

- For the 2012 period we benefited from a non-cash gain of $466,300 as a result of the accounting for the extinguishment of debt. No similar transaction occurred in the 2011 period. The debt extinguishment accounting is precipitated by the changes in the fair value of existing notes pursuant to the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement which extended the maturity date and eliminated the ratchet feature of the notes in question.

*Net Loss from Continuing Operations*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Neurometric Services net loss | $ (960,300) | $ (2,586,300) | 63% |

The net loss for our Neurometric Services business of approximately $1.0 million for the three months ended December 31, 2012 compared to the $2.6 million loss in the same period in the prior year is primarily due to the reduction of approximately $1 million in non-cash charges as described in our Other Expenses category above. The remaining reduction of approximately $0.6 million is due the Company having minimal cash resources for operations during October and November 2012, prior to the closing of the 2012 bridge financing on November 28, 2012.

*Loss from Discontinued operations:*

| | Three months ended December 31, | | Percent Change |
|---|---|---|---|
| | 2012 | 2011 | |
| Clinical Services net loss | (12,200) | (144,100) | (92)% |

For our Clinical Services the net loss for the three ended December 31, 2012 of $12,200 is a decrease of $131,900 over the same three months period of the prior year. As there were no ongoing operations during the 2012 period, the loss incurred was largely due to the write down of assets, namely receivables, which were unlikely to be collected.

The decision to discontinue the Clinical Services operations was due to NTC's persistent losses and its inability to function as a standalone entity within the foreseeable future. As the Company was unsuccessful in raising funds in its registered public offering, there were insufficient cash resources to continue to support NTC.

**Liquidity and Capital Resources**

Since our inception, we have incurred significant losses. As of December 31, 2012, we had an accumulated deficit of approximately $46.6 million, and for the prior year our accumulated deficit was approximately $45.0 million. We have not yet achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that with our Walter Reed clinical trial, sales and marketing and general and administrative cost, our expenditures 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 December 31, 2012, we had approximately $821,100 in cash and cash equivalents and a working capital deficit of approximately $13.7 million compared to approximately $98,400 in cash and cash equivalents and a working capital deficit of approximately $13.9 million at December 31, 2011. The working capital deficit as of December 31, 2012 includes the $9.3 million of convertible promissory notes outstanding of which $7.5 million are secured, $90,000 are unsecured and $1.7 million are new senior secured notes.

**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. We are unable to pay our obligations as they become due and are in arrears on paying most of our creditors. We are insolvent and need additional funds immediately to continue our operations. If we are not able to raise additional funds immediately and reach some accommodations with our creditors, we will likely have to cease operations. Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations.

We need additional funds immediately to complete our Walter Reed clinical trial and to continue our operations and will need substantial additional funds before we can increase demand for our PEER Online services. As of November 30, 2012 we closed on a $2 million round of bridge financing and we are continuing to explore additional sources of capital; however, we do not know whether additional funding will be available on acceptable terms, or at all, especially given the economic conditions that currently prevail. In addition, any additional equity funding may result in significant dilution to existing stockholders, and, if we incur additional debt financing, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. However, effective November 28, 2012, we have the consent of the holders of the majority of the aggregate principal amount outstanding of the October 2010, January 2011, October 2011 and February 2012 Notes to extend the maturity date of those notes to October 1, 2013 and the authorization to raise an addition $1 million in debt financings.

We expect to continue to incur operating losses in the future and to make capital expenditures to expand our research and development programs (including upgrading our PEER Online Database) and to scale up our commercial operations and marketing efforts. We expect that our existing cash will be used to fund working capital and for capital expenditures and other general corporate purposes, including the repayment of debt incurred as a result of our litigation with Brandt. Although since September 30, 2012 we have raised gross proceeds of $1.6 million through the sale of senior secured convertible promissory notes, we anticipate that our cash on hand and cash generated through our operations will not be sufficient to fund our operations for the next 12 months. In addition we will have to repay all the outstanding notes plus interest starting on October 1, 2013, unless we can raise additional funds and restructure the convertible debt. 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. As of February, 13, 2013, holders of convertible notes in the aggregate of $1,922,600 and $238,500 of interest thereon have converted their notes into 16,102,902 shares of common stock. Of these conversions 14,335,599 shares were issued upon conversion by directors or director nominees.

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 Walter Reed clinical trial 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 Non-Significant Risk study under an FDA requirements which will enable us to obtain 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. The issuance of equity securities may result in dilution to stockholders. We do not know whether additional funding will be available on acceptable terms, or at all, especially given the economic conditions that currently prevail. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives, and implement other cost saving measures.

***Sources of Liquidity***

Since our inception, substantially all of our operations have been financed from equity and debt financings. Through December 31, 2012, we had received proceeds of approximately $13.7 million from the sale of stock, $17.7 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 2010 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 2011 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 (October 2011 Notes). On February 29, 2012 we raised a further $90,000 in an unsecured convertible note. From August 17, 2012 through November 30, 2012 we raised $2.0 million in senior secured notes (October 2012 Notes). Of such amounts, an aggregate of $1.2 million was purchased by members of our Board of Directors, or their affiliate companies, Board Nominees or Corporate Officers. *See Note 4 of the Notes to the Unaudited Condensed Consolidated Financial Statements.*

**Cash Flows**

Net cash used in operating activities was $0.6 million for the three months ended December 31, 2012 compared to $0.8 million for the same period in 2011. The decrease in cash used in operations of $0.2 million was primarily due to our increasing accounts payable and accrued compensation balances as a result of deferment of payments to creditors and due to all staff deferring their salaries along with cost cutting/containment across the board.

Net cash from investing activities was a gain of $1,400 for the three months ended December 31, 2012 as compared to the use of $23,100 for the same period in 2011. Our 2012 activity reflected the disposal of computer equipment, whereas in the 2011 period we acquired intellectual property pertaining to a Transcranial Magnetic Stimulation Biomarker ("TMS").

Net cash proceeds from financing activities for the three months ended December 31, 2012 were primarily net proceeds of $1.37 million, raised through the sale of senior convertible promissory October 2012 Notes. For same period in 2011, net cash proceeds from financing activities were approximately $1.0 million from the sale of our secured October 2011 Notes.

**Contractual Obligations and Commercial Commitments**

As of December 31, 2012, our combined lease obligations are $34,900; our remaining lease obligation on our Aliso Viejo office, which expires on January 30, 2013, is $4,100 with an average monthly rental of $3,600 over the entire lease period.

Our remaining lease obligation on our Greenwood Village, CO, which was occupied by our now discontinued clinical services operation, which expires on April 30, 2013, is $22,100 in total with an average monthly rental of $5,100 over the entire lease period.

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1 to 3 years | 3-5 years | More than 5 years |
| Capital Lease Obligations | $ 8,700 | $ 4,900 | $ 3,800 | - | - |
| Operating Lease Obligations, current operations | 4,100 | 4,100 | - | - | - |
| Operating Lease Obligations, discontinued operations | 22,100 | 22,100 | - | - | - |
| Total | $ 34,900 | $ 31,100 | $ 3,800 | - | - |

On January 29, 2012, we signed a 12 month extension to our lease for our current location at 85 Enterprise, Suite 410, Aliso Viejo, CA 92656. The lease period starts on February 1, 2013 and ends January 31, 2014. The monthly rent remains the same as our 2012 monthly rate at $4,147 with the 9th month of the lease, October 2013, being a rent-free month.

**Derivative Liability**

The Company's derivative liability is comprised of a warrant liability which was carried at fair value totaling $520,700, as of September 30, 2012, and the conversion option liability which was carried at a fair value of $0.00 as of September 30, 2012. The warrant liability and conversion option liability were removed pursuant to the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement dated November 24, 2012 and agreed to by the majority of each tranche of noteholders on November 28, 2012. Consequently, warrants were eliminated and the ratchet feature removed from the convertible notes. As a result the warrant liability and conversion option liability are both $0 as of December 31, 2012.

**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, 2012, we had net operating loss carryforwards for federal income tax purposes of $29.1 million. If not utilized, the federal net operating loss carryforwards will begin expiring in 2030. Utilization of net operating loss and credit carryforwards may be subject to a substantial annual limitation due to restrictions contained in the Internal Revenue Code that are applicable if we experience an "ownership change". The annual limitation may result in the expiration of our net operating loss and tax credit carryforwards before they can be used.

**Off-Balance Sheet Arrangements**

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures*

Our management, including our principal executive officer (PEO) and principal financial officer (PFO), conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15, as of December 31, 2012, the end of the period covered by this report. Based on this evaluation, our PEO and PFO concluded that our disclosure controls and procedures were not effective as of December 31, 2012 for the reasons described below. In addition, after the resignation of Messrs. Kallins and DeWald and pending the seating of the new directors, the sole current member of our audit committee is Zachary McAdoo.

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

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

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

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

To the knowledge of our management, including our PEO and PFO, none of the aforementioned significant deficiencies led to a misstatement of our results of operations for the three months ended December 31, 2012, or statement of financial position as of December 31, 2012.

The Company is planning to develop a comprehensive and formal accounting and procedures manual and has identified a resource to assist with the development of such manual.

**Changes in Internal Control Over Financial Reporting**

Other than as stated above, there were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II
## OTHER INFORMATION

### Item 1. Legal Proceedings

Please see Note 8 of our *Notes to Unaudited Condensed Consolidated Financial Statements* for a description of our litigation with Leonard Brandt, which disclosure is herewith incorporated herein by reference to such note

### Item 1A. Risk Factors

Investing in our securities involves risks. In addition to the other information in this quarterly report on Form 10-Q, stockholders and potential investors should carefully consider the risks and uncertainties discussed in the section "Item 1.A. Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2012. If any of the risks and uncertainties set forth herein and therein actually materialize, our business, financial condition and/or results of operations could be materially adversely affected, the trading price of our common stock could decline and a stockholder could lose all or part of his or her investment. The risks and uncertainties described in this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended September 30, 2012 are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations.

In addition, this quarterly report on Form 10-Q contains forward-looking statements. Our actual results could differ materially from those anticipated in those forward-looking statements as a result of various factors, including those set forth in "Item 1A. Risk Factors" of our annual report on Form 10-K for the year ended September 30, 2012. Please see the introductory section to "Part I - Item 2. Management's Discussion of Financial Condition and Results of Operations" in this quarterly report on Form 10-Q for further information on these forward-looking statements.

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

***2010, 2011 and 2012 Private Placement Transactions***

From June 3, 2010 through to November 12, 2010, we raised $3.0 million through the sale of senior secured convertible notes ("October 2010 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 2011 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 ("October 2011 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 warrants. This note was purchased by an affiliate company of a member of our Board of Directors.

From August 17, 2012 through November 30, 2012, we raised an additional $2,000,000 through the sale of senior secured convertible promissory notes ("October 2012 Notes"). Of such amount $690,000 was purchased by members of our Board of Directors or their affiliate companies, $425,000 was purchased by Director Nominees and $50,000 was purchased by the President and Chief Executive Officer of the Company.

Refer to *Note 4. Convertible Debt and Equity Financings to the Unaudited Condensed Consolidated Financial Statements* for details of the abovementioned transactions, which detail is herewith incorporated herein by reference to such note

The issuance of the securities described above was not registered under the Securities Act. No general solicitation or advertising was used in connection with the issuance. In making the issuance to accredited investors without registration under the Securities Act, the Company relied upon the exemption from registration contained in Section 4(2) of the Securities Act and/or Regulation D thereunder.

**Item 6. Exhibits**

The following exhibits are filed as part of this report or incorporated by reference herein:

| Exhibit Number | Exhibit Title |
|---|---|
| 10.75 | Form of Secured Convertible Promissory Note ("October 2012 Note"). Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K/A (File Number 000-26285) filed with the Securities and Exchange Commission on November 13, 2012. |
| 10.76 | Form of Amended and Restated Note Purchase Agreement. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K/A (File Number 000-26285) filed with the Securities and Exchange Commission on November 13, 2012. |
| 10.77 | Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement, dated as of October 24, 2012. |
| 10.78 | Form of Governance Agreement with Equity Dynamics, Inc. 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 December 4, 2012. |
| 10.79 | Form of Governance Agreement with SAIL Capital Partners. 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 December 4, 2012. |
| 10.80 | Form of Employment Compensation Forfeiture and Exchange Agreement. Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File Number 000-26285) filed with the Securities and Exchange Commission on December 4, 2012. |
| 31.1 | Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase* |

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

## SIGNATURES

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

CNS Response, Inc.

Date: February 19, 2013

/s/ George Carpenter

By: George Carpenter

Its: Chief Executive Officer

(Principal Executive Officer)

/s/ Paul Buck

By: Paul Buck

Its: Chief Financial Officer

(Principal Financial Officer)

**AMENDED AND RESTATED CONSENT, NOTE AMENDMENT
AND
WARRANT FORFEITURE AGREEMENT**

This AMENDED AND RESTATED CONSENT, NOTE AMENDMENT AND WARRANT FORFEITURE AGREEMENT (this " **Agreement**") is entered into as of October 24, 2012 by and among CNS Response, Inc., a Delaware corporation (the "**Company**") and the undersigned holders ("**Undersigned Holders**"), as the holders of secured convertible promissory notes in the aggregate principal amount set forth opposite each such holder's name below, and of the related warrants to purchase the number of common stock, par value $0.001 per share (the "**Common Stock**"), of the Company.

Recitals for October 2010 Notes.

WHEREAS, the Company entered into a Note and Warrant Purchase Agreement dated as of October 1, 2010 (the "**October 2010 Purchase Agreement**") with certain of the Undersigned Holders (the "**October 2010 Holders**");

WHEREAS, pursuant to the October 2010 Purchase Agreement, the Company issued and sold to such Undersigned Holders a secured convertible promissory note (each, an "**October 2010 Note**") and a warrant to purchase Common Stock (each, an "**October 2010 Warrant**");

WHEREAS, the Company and the October 2010 Holders entered into an Agreement to Convert and Amend, dated as of June 3, 2011, in respect of the October 2010 Notes and October 2010 Warrants in connection with a planned listing of securities of the Company on a Canadian securities exchange;

WHEREAS, the Company and the holders of a majority in outstanding principal amount of October 2010 Notes (the "**October 2010 Majority Holders**") subsequently entered into an Amendment and Conversion Agreement, dated as of September 30, 2011, in connection with the then-pending maturity of the October 2010 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 of the October 2010 Notes (as defined in the October 2010 Notes) was adjusted to $3.00, the exercise price of the October 2010 Warrants was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the October 2010 Warrants was proportionately reduced;

WHEREAS, the Company and the October 2010 Holders subsequently entered into a Conversion Agreement, dated as of May 4, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $5 million;

WHEREAS, the Company and the October 2010 Holders subsequently entered into a Conversion Agreement, dated as of June 12, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $3 million;

WHEREAS, pursuant to Section 9 of the October 2010 Notes, the Company will not, without the prior written consent of the October 2010 Majority Holders, amend, waive or modify any provision of the Notes;

WHEREAS, pursuant to Section 4.2(b) of the October 2010 Purchase Agreement, the Company will not, without the prior written consent of the October 2010 Majority Holders, borrow, guaranty or otherwise incur indebtedness in excess of $100,000;

Recitals for January 2011 Notes.

WHEREAS, the Company entered into a Note and Warrant Purchase Agreement dated as of January 20, 2011 (the "**January 2011 Purchase Agreement**") with certain of the Undersigned Holders (the "**January 2011 Holders**");

WHEREAS, pursuant to the January 2011 Purchase Agreement, the Company issued and sold to such Undersigned Holders a convertible promissory note (each, a "**January 2011 Note**") and a warrant to purchase Common Stock (each, a "**January 2011 Warrant**");

WHEREAS, the Company and the January 2011 Holders entered into an Agreement to Convert and Amend, dated as of June 3, 2011, in respect of the January 2011 Notes and January 2011 Warrants in connection with a planned listing of securities of the Company on a Canadian securities exchange;

WHEREAS, the Company and the holders of a majority in outstanding principal amount of January 2011Notes (the "**January 2011 Majority Holders**") subsequently entered into an Amendment and Conversion Agreement, dated as of September 30, 2011, in connection with the then-pending maturity of the January 2011 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, in connection with the Reverse Split, the Conversion Price of the January 2011 Notes (as defined in the January 2011 Notes), was adjusted to $3.00, the exercise price of the January 2011 Warrants was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the January 2011 Warrants was proportionately reduced;

WHEREAS, the Company and the January 2011 Holders subsequently entered into a Conversion Agreement, dated as of May 4, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $5 million;

WHEREAS, the Company and the January 2011 Holders subsequently entered into a Conversion Agreement, dated as of June 12, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $3 million;

WHEREAS, pursuant to Section 9 of the January 2011 Notes, the Company will not, without the prior written consent of the January 2011 Majority Holders, amend, waive or modify any provision of the Notes;

WHEREAS, pursuant to Section 4.2(b) of the January 2011 Purchase Agreement, the Company will not, without the prior written consent of the January 2011 Majority Holders, borrow, guaranty or otherwise incur indebtedness in excess of $100,000;

Recitals for November 2011 Notes.

WHEREAS, the Company entered into an Amended and Restated Note and Warrant Purchase Agreement dated as of November 11, 2011 (the "**November 2011 Purchase Agreement**") with certain of the Undersigned Holders (the "**November 2011 Holders**");

WHEREAS, pursuant to the November 2011 Purchase Agreement, the Company issued and sold to such Undersigned Holders a secured convertible promissory note (each, a "**November 2011 Note**") and a warrant to purchase Common Stock (each, a "**November 2011 Warrant**");

WHEREAS, in connection with the Reverse Split, the Conversion Price of the November 2011 Notes (as defined in the November 2011 Notes), was adjusted to $3.00, the exercise price of the November 2011 Warrants was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the November 2011 Warrants was proportionately reduced;

WHEREAS, the Company and holders of a majority in outstanding principal amount of the November 2011 Notes (the "**November 2011 Majority Holders**") subsequently entered into a Conversion Agreement, dated as of May 4, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $5 million;

WHEREAS, the Company and the November 2011 Majority Holders subsequently entered into a Conversion Agreement, dated as of June 12, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $3 million;

WHEREAS, pursuant to Section 9 of the November 2011 Notes, the Company will not, (i) without the written consent of the November 2011 Majority Holders, amend, waive or modify any provision of the November 2011 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 November 2011 Holder, 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 November 2011 Holder's Note(s).

WHEREAS, pursuant to Section 5.2 of the November 2011 Purchase Agreement, any term of the November 2011 Purchase Agreement may be amended (either retroactively or prospectively) with the written consent of the Company and the November 2011 Majority Holders.

WHEREAS, pursuant to Section 4.2(b) of the November 2011 Purchase Agreement, the Company will not, without the prior written consent of the November 2011 Majority Holders, borrow, guaranty or otherwise incur indebtedness in excess of $100,000;

Recitals for February 2012 Notes.

WHEREAS, on February 29, 2012 the Company issued and sold to one of the Undersigned Holders (the "**February 2012 Holder**") a secured convertible promissory note (a "**February 2012 Note**") and a warrant to purchase Common Stock (a "**February 2012 Warrant**");

WHEREAS, in connection with the Reverse Split, the Conversion Price of the February 2012 Note (as defined in the February 2012 Note), was adjusted to $3.00, the exercise price of the February 2012 Warrant was adjusted to $3.00 per share, and the number of shares issuable upon exercise of the February 2012 Warrant was proportionately reduced;

WHEREAS, the Company and the February 2012 Holder subsequently entered into a Conversion Agreement, dated as of May 4, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $5 million;

WHEREAS, the Company and the February 2012 Holder subsequently entered into a Conversion Agreement, dated as of June 12, 2012, in connection with a proposed public offering in which the Company planned to issue securities yielding gross proceeds of at least $3 million;

WHEREAS, pursuant to Section 9 of the February 2012 Note, the Company will not, (i) without the written consent of the holders of a majority in outstanding principal amount of February 2012 Notes (the "**February 2012 Majority Holders**"), amend, waive or modify any provision of the February 2012 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 February 2012 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 February 2012 Holder's Note(s).

General Recitals.

WHEREAS, the October 2010 Notes, January 2011 Notes, November 2011 Notes and February 2012 Note are herein collectively referred to as the "**Existing Notes**" and the October 2010 Warrants, January 2011 Warrants, November 2011 Warrants and February 2012 Warrant are herein collectively referred to as the "**Existing Warrants**";

WHEREAS, the Company wishes to issue senior secured convertible promissory notes (the "**New Notes**") in the aggregate principal amount of $2 million, such amount subject to increase at the discretion of the Company's Board of Directors, pursuant to a new Note Purchase Agreement in substantially the form attached as Exhibit B hereto (the "**Amended and Restated Purchase Agreement**") to investors who will invest funds after the date hereof and to those investors who have invested $600,000 between August 17, 2012 and October 19, 2012, of which investors who have invested $400,000 received notes with substantially the same terms as the terms of the New Notes but containing a mandatory conversion provision (the purchase and sale of the New Notes pursuant to the Amended and Restated Purchase Agreement and the purchase and sale of the 2013 Notes (as defined below) is referred to herein as the "**New Financing**");

WHEREAS, a Consent, Note Amendment and Warrant Forfeiture Agreement ("**Original Agreement**") was entered into as of August 15, 2012 by and among the Company and certain of the Undersigned Holders, representing approximately $2.5 million of the Existing Notes outstanding as of such date;

WHEREAS, the Company has, in accordance with such executed consents, accepted subscriptions and funds for $600,000 of New Notes;

WHEREAS, the Company also has deemed it in the best interest of the Corporation to be able to issue additional senior secured convertible promissory notes (the **"2013 Notes"**) in the aggregate principal amount of $1 million prior to the third calendar quarter of 2013. Such amount, price and terms of 2013 Notes will be subject to the discretion of the Company's Board of Directors, pursuant to a new purchase agreement in form substantially similar to that attached as Exhibit B hereto (references herein to the "**New Financing**" shall include the sale and issuance of promissory notes of up to $1 million during 2013);

WHEREAS, $200,000 of such aggregate principal amount represents the aggregate principal amount outstanding under two demand notes in the principal amount of $100,000 each, issued by the Company to John Pappajohn on April 26, 2012 and May 25, 2012, which are being exchanged in the New Financing (such notes, the "**Demand Notes**");

WHEREAS, in connection with the New Financing, the parties hereto desire to amend that certain Amended and Restated Security Agreement, dated as of September 30, 2011, by and between the Company and Paul Buck, as administrative agent for the Secured Parties (as defined therein) (the "**Prior Security Agreement**"), by entering into a Second Amended and Restated Security Agreement, in substantially the form attached as Exhibit A hereto (the "**Amended Security Agreement**"), in order to grant to the holders of the New Notes in the New Financing a first position security interest in the Collateral (as defined in the Prior Security Agreement), which shall be senior to the security interest currently held by the holders of the Existing Notes pursuant to the Prior Security Agreement; and

WHEREAS, the Company and the Undersigned Holders wish to (i) amend the Existing Notes, (ii) forfeit, cancel and surrender the Existing Warrants and (iii) consent to the New Financings in accordance with the terms set forth herein;

NOW, THEREFORE, the Undersigned Holders who are executing this Agreement, consisting of at least the October 2010 Majority Holders, the January 2011 Majority Holders, the November 2011 Majority Holders and the February 2012 Holder, on behalf of all of the holders of the Existing Notes and Existing Warrants, in consideration for the mutual promises and covenants herein, agree, effective upon the Company's receipt of proceeds in the New Financing of at least $1,350,000 (the "**Minimum Amount**") unless otherwise indicated, as follows:

1. Amendments to Existing Notes.

(a) Maturity Date. The Undersigned Holders agree that the maturity date set forth in subsection (i) of the first paragraph of each Existing Note is hereby amended to mean October 1, 2013.

(b) Conversion Price. The Undersigned Holders agree that the definition of "Conversion Price" in Section 6(b) of the Existing Notes shall be replaced in its entirety with the following (the "**Conversion Price Adjustment**"):

"'Conversion Price' means, as of any Conversion Date or other date of determination, $1.00, subject to adjustment as provided herein."

Provided, however, that, for each holder of November 2011 Notes, the existing proviso in Section 6(b) of the November 2011 Notes, referring to the Conversion Price in the case of mandatory conversion described in Section 6(c)(iii) of such notes, shall only be deleted if such holder consents to such deletion by signing this Agreement.

(c) Removal of Full Ratchet. The Undersigned Holders agree to remove Section 7(d) - Ratchet in its entirety from the Existing Notes.

(d) Reference to Security Agreement. The Undersigned Holders agree that any and all references in the Existing Notes to "Security Agreement" shall be deemed to refer to the Amended Security Agreement, dated as of August 16, 2012, by and between the Company and David B. Jones, as administrative agent on behalf of the Secured Parties (as defined therein).

(e) Reference to Security Interest and Subordination. The Undersigned Holders agree that any references in the Existing Notes to "first position security interest," "second position security interest" and "subordination," or similar terms, shall be adjusted to reflect the structure described in Section 4 hereof and the Amended Security Agreement.

2. Forfeiture of Warrants.

(a) Forfeiture. Subject to the terms and conditions of this Agreement, the Undersigned Holders agree to cancel all of the Existing Warrants (it being understood that no warrants other than the Existing Warrants shall be canceled pursuant to this Section).

(b) Release. Each Undersigned Holder hereby releases and forever discharges the Company and its predecessors, successors, assigns and each of them, and each past, present, and future director, partner, subsidiary, division or entity or affiliated corporation, and each past, present or future employee, agent, representative, attorney, accountant, officer, director, stockholder, subscriber, and all persons acting by, through, under or in concert with them, or any of them, of and from any and all claims, actions, causes of action, suits, debts, liens, demands, contracts, liabilities, agreements, costs, expenses, or losses of any type, whether known or unknown, fixed or contingent, which such Undersigned Holder had, now has, or may hereafter have, arising out of or resulting from the Existing Warrants, or the shares of capital stock of the Company issuable upon exercise of the Existing Warrants, prior to the date hereof, including, without limitation, any such claims and other rights related to or arising from any promise, guaranty or grant (oral or written) by the Company to be issued or otherwise acquire or receive an equity interest in the Company, including but not limited to: (i) the Undersigned Holder's claim to any equity interest in the Company, and (ii) any and all claims with respect to rights of notice under the Existing Warrants or applicable law.

3. Waiver. Each Undersigned Holder hereby irrevocably waives the ability to declare an event of default under the Existing Notes as a result of the issuance by the Company of the Demand Notes and the New Notes, including the notes as previously issued to those persons who invested $600,000 from August 17, 2012 to October 19, 2012, and waives all rights and remedies related thereto under the Existing Notes and the related purchase agreement.

4. Consent to New Financing and Issuance of Demand Notes. Notwithstanding anything to the contrary in the terms of the Existing Notes, the October 2010 Purchase Agreement, the January 2011 Purchase Agreement, the November 2011 Purchase Agreement and/or any other agreement referenced in the Recitals hereto, each Undersigned Holder hereby irrevocably:

(a) agrees and consents to the New Financing and the issuance of the New Notes by the Company on the terms and conditions set forth in the New Purchase Agreement and the Amended Security Agreement, including, but not limited to, the grant of a first position security interest in the Collateral to the investors in the New Financing, which first position security interest would be senior to the security interests held by the holders of the Existing Notes;

(b) agrees and consents to the issuance of New Notes, including the notes as previously issued to those persons who invested $600,000 from August 17, 2012 to October 19, 2012;

(c) agrees and consents to the subordination of the Existing Notes to the investors in the New Financing; and

(d) agrees and consents to the issuance of the Demand Notes.

5. Representations and Warranties of Undersigned Holders. Each Undersigned Holder hereby represents and warrants to the Company as follows:

(a) Authority. Each Undersigned Holder has, as appropriate, full power and legal capacity and all corporate right, power, legal capacity and authority to enter into this Agreement. The execution, delivery and performance of this Agreement has been duly and validly approved and authorized by each Undersigned Holder.

(b) Title to Warrants. Each Undersigned Holder has good and valid title to, and owns all right, title and interest (legal and beneficial) in, the Existing Warrants being cancelled pursuant to this Agreement, free and clear of all liens. No stock certificates have been issued to the Undersigned Holders, or, to the knowledge of the Undersigned Holders, to any other person, in respect of the Existing Warrants.

(c) Accredited Investor. Each Undersigned Holder is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "**Securities Act**").

(i) Investment for Own Account. The shares of Common Stock to be issued upon conversion of the Existing 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.

(ii) Knowledge and Experience. Each Undersigned Holder has such knowledge and experience in financial and business matters that (s)he is capable of evaluating the merits and risks of an investment in the shares of Common Stock and of making an informed investment decision with respect thereto, has the ability and capacity to protect his/her interests and can bear the economic risk of the acceptance of the shares of Common Stock, including a total loss of his/her investment.

(iii) Opportunity to Ask Questions. Each Undersigned Holder has had the opportunity to ask questions and receive answers from the Company or any authorized person acting on its behalf concerning the Company and its business and to obtain any additional information, to the extent possessed by the Company (or to the extent it could have been acquired by the Company without unreasonable effort or expense) necessary to verify the accuracy of the information received by each such Undersigned Holder. In connection therewith, each Undersigned Holder acknowledges that (s)he has had the opportunity to discuss the Company's business, management and financial affairs with the Company's management or any authorized person acting on its behalf.

(iv) Receipt of Information. Each Undersigned Holder has received and reviewed all the information concerning the Company, the Existing Notes and the shares of Common Stock underlying such Existing Notes, both written and oral, that the Undersigned Holder desires. Without limiting the generality of the foregoing, the Undersigned Holder has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Undersigned Holder desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Undersigned Holder has relied solely on his/her own knowledge and understanding of the Company and its business based upon the Undersigned Holder's own due diligence investigations and the Company's filings with the U.S. Securities and Exchange Commission.

6. Miscellaneous.

(a) Effectiveness of Agreement. It is understood and agreed by the parties hereto that this Agreement shall only be effective upon the receipt by the Company of the Minimum Amount in the New Financing; provided, however, that the waiver and consent contained in the second sentence of Section 3 and in Section 4(c) shall be effective as to an Undersigned Holder immediately upon execution of this Agreement by such holder.

(b) Acknowledgment. It is understood and agreed by the parties hereto that the Company is making available to the holders of all Existing Notes the same opportunity to receive the Conversion Price Adjustment set forth in Section 1 hereof.

(c) Governing Law. 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.

(d) Amendment. This Agreement may only be amended by written agreement of the Company and at least the October 2010 Majority Holders, the January 2011 Majority Holders, the November 2011 Majority Holders and the February 2012 Majority Holders expressly stating that such instrument is intended to modify, amend or supplement this Agreement.

(e) Assignment. An Undersigned Holder may only assign this Agreement with the written consent of the Company. The Company may freely assign this Agreement without the consent of any other party. Any assignment of this Agreement in violation of this Section is null and void. This Agreement shall be binding and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

(f) Waiver of Rights. 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.

(g) No Other Agreements. This Agreement (including the Exhibits attached hereto) contains a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter thereof and shall constitute the entire agreement between the parties hereto with respect to the subject matter thereof, superseding all prior oral or written understandings. There are no unwritten agreements between the parties hereto. In the event of a conflict between the terms of this Agreement, on the one hand, and the terms of the Existing Notes, the October 2010 Purchase Agreement, the January 2011 Purchase Agreement, the November 2011 Purchase Agreement and/or any other agreement referenced in the Recitals hereto, on the other hand, the terms of this Agreement shall prevail and control.

(h) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement will be binding upon the Company and the Undersigned Holders and their respective successors, assigns, heirs and personal representatives.

(i) Further Assurances. The Undersigned Holders shall from time to time and at all times hereafter make, do, execute, or cause or procure to be made, done and executed such further acts, deeds, conveyances, consents and assurances without further consideration, which may be reasonably required to effect the transactions contemplated by this Agreement.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

CNS Response, Inc.

By: _/s/ George Carpenter________
Name: George Carpenter
Title: CEO

| **Holders of Existing Notes:** | **Series of Existing Note(s)** | **Aggregate Principal Amount(s)** |
|---|---|---|
| /s/ John Pappajohn<br>____________________________________<br>John Pappajohn | **October 2010 Notes** | **$761,688** |
| SAIL Venture Partners, LP<br><br>By: _/s/ Walter L. Schindler______________<br>Name: __Walter L. Schindler____________<br>Title: _Managing Partner______________ | **October 2010 Notes** | **$250,000** |
| __/s/ Andy Sassine_____________________<br>Andy Sassine<br>11/28/12 | **October 2010 Notes** | **$500,000** |
| ____________________________________<br>Fatos Mucha | **October 2010 Notes** | **$100,000** |
| JD Advisors, LLC<br><br>By:_________________________________<br>Name: _____________________<br>Title: _____________________ | **October 2010 Notes** | **$150,000** |

| | | |
|---|---|---|
| Queen Street Capital Corporation<br><br>By:________________________________<br>Name: _____________________<br>Title: ____________________ | **October 2010 Notes** | **$100,000** |
| BGN Acquisition Ltd., LP<br><br>By: _/s/ George Kallins_______________<br>Name: ___George Kallins_____________<br>Title: ____GP_______________ | **October 2010 Notes** | **$250,000** |
| Deerwood Holdings, LLC<br><br>By: _/s/ George Kallins_______________<br>Name: ___George Kallins_____________<br>Title: ____MM_______________ | **October 2010 Notes** | **$256,125** |
| Deerwood Partners, LLC<br><br>By: _/s/ George Kallins_______________<br>Name: ___George Kallins_____________<br>Title: ____MM_______________ | **October 2010 Notes** | **$256,125** |
| Pyxis (Highland) Long/Short Healthcare Fund<br><br>By:_________________________________<br>Name: _____________________<br>Title: ____________________ | **October 2010 Notes** | **$400,000** |
| | | |
| /s/ Meyer Proler, M.D.<br>__________________________________<br>Meyer Proler M.D. | **January 2011 Notes** | **$100,000** |

| | | |
|---|---|---|
| ______________________________<br>William F. Grieco | **January 2011 Notes** | **$100,000** |
| /s/ Edward L. Scanlon<br>______________________________<br>Edward L.Scanlon | **January 2011 Notes** | **$200,000** |
| Frommer Family Trust dated August 29, 2006<br><br>By:__/s/ Robert Frommer________________<br>Name: __Robert Frommer______________<br>Title: ___Trustee_________________ | **January 2011 Notes** | **$50,000** |
| /s/ Buck___________________________<br>Paul Buck | **January 2011 Notes** | **$50,000** |
| /s/ Andy Sassine<br>______________________________<br>Andy Sassine<br>11/28/12 | **January 2011 Notes** | **$200,000** |
| Highland Long/Short Healthcare Fund<br><br>By:______________________________<br>Name: ______________________<br>Title: _____________________ | **January 2011 Notes** | **$400,000** |
| SAIL 2010 Co-Investment Partners, LP<br><br>By:__/s/ Walter L. Schindler_____________<br>Name: __Walter L. Schindler____________<br>Title: __Managing Partner_____________ | **January 2011 Notes** | **$437,500** |

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|---|---|---|
| SAIL Venture Partners, LP<br><br>By:__/s/ Walter L. Schindler_____________<br>Name: __Walter L. Schindler____________<br>Title: __Managing Partner_____________ | **January 2011 Notes** | **$562,500** |
| ____________________________________<br>Rajiv Kaul | **January 2011 Notes** | **$100,000** |
| /s/ John M. Pulos____________________<br>John M. Pulos | **January 2011 Notes** | **$150,000** |
| Cummings Bay Healthcare Fund, LP.<br><br>By:_________________________________<br>Name: ______________________<br>Title: _____________________ | **January 2011 Notes** | **$150,000** |
| | | |
| __/s/ John Pappajohn__________________<br>John Pappajohn | **November 2011 Notes** | **$750,000** |
| Jordan Family, LLC<br><br>By:_________________________________<br>Name: ______________________<br>Title: _____________________ | **November 2011 Notes** | **$20,000** |
| /s/ Larry Hopfenspirger<br>___________________________________<br>Larry Hopfenspirger | **November 2011 Notes** | **$90,000** |

| | | |
|---|---|---|
| Zanett Opportunity Fund, Ltd<br>c/o Appleby Surling Hunter<br><br>By: /s/ Zachary McAdoo______________<br>Name: __Zachary McAdoo______<br>Title: __Director_____________ | **November 2011 Notes** | **$290,000** |
| _/s/ Edward L. Scanlon_________________<br>Edward L. Scanlon | **November 2011 Notes** | **$100,000** |
| Fidelity Management Trust Company : FBO<br>John Pagnucco Acct :177-659304<br><br>By:___________________________________<br>Name: ______________________<br>Title: _____________________ | **November 2011 Notes** | **$50,000** |
| Scotia Capital ITF AlphaNorth Offshore Inc.<br>Acct 40300733<br><br>By:___________________________________<br>Name: ______________________<br>Title: _____________________ | **November 2011 Notes** | **$500,000** |
| ____________________________________<br>Gene Salkind, MD | **November 2011 Notes** | **$50,000** |
| _____________________________________<br>Aubrey W. Baillie | **November 2011 Notes** | **$100,000** |
| Blumont Capital Corp.<br>ITF Northern Rivers Innovation RSP Fund.<br><br>By: /s/ Hugh Cleland_________________<br>Name: __Hugh Cleland________________<br>Title: __EVP & Portfolio Manager______ | **November 2011 Notes** | **$50,000** |

| | | |
|---|---|---|
| Zanett Opportunity Fund, Ltd<br>c/o Appleby Surling Hunter<br><br>By: _/s/ Zachary McAdoo______________<br>Name: _Zachary McAdoo_____________<br>Title: _Director___________________ | **February 2012 Note** | **$90,000** |
| | | |

**Exhibit A**

**[AMENDED SECURITY AGREEMENT (WITH EXHIBITS)]**

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**Exhibit B**

**[AMENDED AND RESTATED PURCHASE AGREEMENT (WITH EXHIBITS)]**

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EXHIBIT 31.1

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

I, George Carpenter, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 19, 2013

/s/ George Carpenter
George Carpenter
Chief Executive Officer

EXHIBIT 31.2

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

I, Paul Buck, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 19, 2013

/s/ Paul Buck

Paul Buck
Principal Financial Officer

EXHIBIT 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended December 31, 2012 (the "Report") by CNS Response, Inc. (the "Registrant"), the undersigned hereby certifies that to the best of his knowledge:

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

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

Date: February 19, 2013

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

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