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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

☐ 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 August 13, 2013, the issuer had 81,137,129 shares of common stock, par value $0.001 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 June 30,		For the nine months ended June 30,	
	2013	2012	2013	2012
REVENUES				
Neurometric Services	$ 25,900	$ 32,800	$ 83,300	$ 90,000
OPERATING EXPENSES				
Cost of neurometric services revenues	38,800	35,500	105,800	110,700
Research	53,100	66,300	156,400	203,400
Product development	376,800	200,900	705,400	476,200
Sales and marketing	83,400	223,200	254,900	813,600
General and administrative	653,200	660,300	1,863,700	2,257,300
Total operating expenses	1,205,300	1,186,200	3,086,200	3,861,200
OPERATING LOSS	(1,179,400)	(1,153,400)	(3,002,900)	(3,771,200)
OTHER INCOME (EXPENSE):				
Interest expense, net	(183,300)	(767,400)	(1,213,600)	(3,385,000)
Gain on extinguishment of debt	-	-	556,300	-
Financing fees	30,500	-	(62,200)	(151,500)
Offering costs	-	(781,400)	(2,500)	(789,100)
Gain (Loss) on derivative liabilities	-	6,419,700	(97,600)	918,000
Total other income (expense)	(152,800)	4,870,900	(819,600)	(3,407,600)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(1,332,200)	3,717,500	(3,822,500)	(7,178,800)
Provision for income taxes	-	1,100	800	2,000
INCOME (LOSS) BEFORE OTHER COMPRESHENSIVE INCOME	$ (1,332,200)	$ 3,716,400	$ (3,823,300)	$ (7,180,800)
Other comprehensive income (loss)	-	-	-	-
INCOME (LOSS) FROM CONTINUING OPERATIONS	$ (1,332,200)	$ 3,716,400	$ (3,823,300)	$ (7,180,800)
Loss from discontinued operations	(1,800)	(101,200)	(15,200)	(329,500)
NET Income (Loss)	(1,334,000)	3,615,200	(3,838,500)	(7,510,300)
NET INCOME (LOSS) PER SHARE:				
From continuing operations	$ (0.03)	$ 1.98	$ (0.17)	$ (3.83)
From discontinued operations	$ (0.00)	$ (0.05)	$ (0.00)	$ (0.18)
Combined Net Income (Loss)	$ (0.03)	$ 1.93	$ (0.17)	$ (4.01)
DILUTED NET INCOME (LOSS) PER SHARE:				
From continuing operations	$ (0.03)	$ 0.52	$ (0.17)	$ (3.83)
From discontinued operations	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.18)
Combined Net Income (Loss) from operations	$ (0.03)	$ 0.51	$ (0.17)	$ (4.01)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	42,691,256	1,874,175	22,336,772	1,873,902
Diluted	42,691,256	7,100,407	22,336,772	1,873,902

See accompanying Notes to Condensed Consolidated Financial Statements.

CNS RESPONSE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	Unaudited As of June 30, 2013	As of September 30 2012
ASSETS		
CURRENT ASSETS:		
Cash	$ 671,600	$ 7,700
Accounts receivable (net of allowance for doubtful accounts of $5,900 as of June 30, 2013 and $14,300 as of September 30, 2012 respectively)	12,100	12,400
Prepaids and other receivables	103,400	43,700
Assets of discontinued operations	3,100	17,900
Total current assets	790,200	81,700
Furniture & equipment	19,100	20,000
Other assets	22,000	23,600
TOTAL ASSETS	$ 831,300	$ 125,300
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable (including amounts due to related parties of $266,000 and $260,000 as of June 30, 2013 and September 30, 2012 respectively)	$ 2,997,200	$ 3,086,700
Accrued liabilities	55,800	20,600
Accrued compensation (including $295,200 and $499,100 to related parties as of June 30, 2013 and September 30, 2012 respectively)	756,100	732,700
Accrued consulting fees (including $0 and $81,000 to related parties as of June 30, 2013 and September 30, 2012 respectively)	20,000	104,000
Accrued interest	1,301,100	1,048,800
Promissory note	-	200,000
Derivative liability	-	520,700
Senior subordinated convertible promissory notes-related party	2,773,900	3,023,900
Subordinated convertible promissory notes-related party (net of discounts $0 and $416,700 as of June 30, 2013 and September 30, 2012 respectively)	3,500,000	4,083,300
Unsecured convertible promissory notes-related party (net of discounts $0 and $37,500 as of June 30, 2013 and September 30, 2012 respectively)	90,000	52,500
Unsecured convertible promissory note (October 2012 Notes) (net of discounts $1,300 and $370,200 as of June 30, 2013 and September 30, 2012 respectively)	158,700	27,900
Current portion of long-term debt	7,000	5,200
Liabilities of discontinued operation (including $0 and $89,000 to related parties as of June 30, 2013 and September 30, 2012 respectively)	277,100	288,700
Total current liabilities	11,936,900	13,195,000
LONG-TERM LIABILITIES		
Capital lease	7,900	5,000
Total long-term liabilities	7,900	5,000
TOTAL LIABILITIES	11,944,800	13,200,000
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' DEFICIT:		
Common stock, $0.001 par value; authorized 150,000,000 shares; 49,843,710 and 1,914,175 shares issued and outstanding as of June 30, 2013 and September 30, 2012 respectively	49,800	1,900
Additional paid-in capital	(38,318,500)	32,566,700
Accumulated deficit	(49,481,800)	(45,643,300)
Total stockholders' deficit	(11,113,500)	(13,074,700)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 831,300	$ 125,300

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	For the nine months ended June 30,	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,838,500)	$ (7,510,300)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net loss from discontinued operations	15,200	329,500
Depreciation and amortization	10,100	14,000
Amortization of discount on bridge notes issued	661,000	2,991,900
Stock-based compensation	987,000	1,010,700
Issuance of warrants for financing services	66,200	56,800
Gain (loss) on derivative liability valuation	97,600	(918,000)
Extinguishment of debt	(556,300)	-
Non-cash interest expense	550,200	480,900
Changes in operating assets and liabilities		
Accounts receivable	300	10,000
Prepaids and other current assets	(59,700)	(4,900)
Accounts payable and accrued liabilities	(8,800)	1,321,500
Deferred compensation	201,700	242,600
Deferred compensation exchange for common stock	(178,300)	-
Security deposit on new lease	-	4,600
Net cash used in operating activities	(2,052,300)	(1,970,700)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of furniture & equipment	-	(4,300)
Disposal of equipment	1,400	-
Acquisition of Brain Clinics	-	(21,200)
Net cash provided by (used in) investing activities	1,400	(25,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital leases	(4,200)	(4,500)
Net proceeds from bridge notes	1,368,300	2,195,300
Proceeds from exercise of warrants	-	900
Proceeds from purchase of common stock	1,362,700	-
Net cash provided by financing activities	2,726,800	2,191,700
DISCONTINUED OPERATIONS		
Net cash used in discontinued operations activities	(12,000)	(258,200)
Net cash used in discontinued operations	(12,000)	(258,200)
NET INCREASE (DECREASE) IN CASH	663,900	(62,700)
Cash, beginning of period	7,700	73,600
Cash, end of period	671,600	10,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 2,557	$ 6,800
Income taxes	$ 800	$ 2,000
Fair value of intellectual property	$ -	$ 20,000
Non-cash financing activities:		
Placement agent warrants issued	$ 66,200	$ 56,800
Offering costs	$ 2,500	$ -
Shares issued for officer salaries	$ 7,900	$ -
Shares issued for promissory notes	$ 3,375,900	$ -

See accompanying Notes to Condensed Consolidated Financial Statements.

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

For the nine months ended June 30, 2013	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE – September 30, 2012	1,914,175	$ 1,900	$ 32,566,700	(45,643,300)	(13,074,700)
Stock-based compensation	-	-	987,000	-	987,000
Stock issued for officers' salaries	165,790	200	7,700	-	7,900
Stock issued for note conversion exercised	41,873,745	41,800	3,334,100	-	3,375,900
Stock issued for purchase of common stock	5,890,000	5,900	1,356,800	-	1,362,700
Placement agent warrants issued	-	-	66,200	-	66,200
Net loss for the nine months ended June 30, 2013	-	-	-	(3,838,500)	(3,838,500)
Balance at June 30, 2013	49,843,710	$ 49,800	$ 38,318,500	$ (49,481,800)	$ (11,113,500)

For the nine months ended June 30, 2012	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE – September 30, 2011	1,871,352	$ 1,900	$ 30,813,100	(42,236,500)	(11,421,500)
Stock-based compensation	-	-	1,010,700	-	1,010,700
Stock issued for warrant exercise	2,823	-	900	-	900
Net loss for the nine months ended June 30, 2012	-	-	-	(7,510,300)	(7,510,300)
Balance at June 30, 2012	1,874,175	$ 1,900	$ 31,824,700	$ (49,746,800)	$ (17,920,200)

See accompanying Notes to 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 have commenced a reimbursed 2,000 patient trial at Walter Reed National Military Medical Center ("Walter Reed" or "WRNMMC") and at Fort Belvoir Community Hospital ("Fort Belvoir") 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 reduced 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.

On May 23, 2013, the Company held its 2013 annual meeting of stockholders (the "2013 Annual Meeting"), the holders of the Company's common stock voted to elect each of the following directors to serve until the next annual meeting and until his successor is elected and qualified: Thomas Tierney, John Pappajohn, Walter Schindler, Zachary McAdoo, Richard Turner, Andrew Sassine and Robert Follman.

At the 2013 Annual Meeting the shareholders also approved the following proposals:

- To amend the Company's Amended and Restated Certificate of Incorporation, as amended (the "Charter") in order to increase the number of shares of common stock, par value $0.001 per share, authorized for issuance under the Charter from 100,000,000 to 150,000,000.
- To amend the Company's Charter in order to create one or more new series of preferred stock, par value $0.001 per share, and authorize 15,000,000 shares of such preferred stock for issuance.
- To adopt the Company's 2012 Omnibus Incentive Compensation Plan, as amended, to award grants of up to an aggregate of 15,000,000 shares of common stock.
- To consider and provide an advisory (non-binding) vote to approve the compensation of the Company's named executive officers as described in the proxy statement (the "Say-on-Pay Vote") and to consider the frequency of holding the Say-on-Pay Vote (with shareholders approving a three year cycle).

The Company's Charter was amended for the first two of these items effective May 31, 2013.

Going Concern Uncertainty

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. The Company has a limited operating history and its operations are subject to certain problems, expenses, difficulties, delays, complications, risks and uncertainties frequently encountered in the operation of a new business. These risks include the 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 has limited ability to meet its current obligations as they become due and it is in arrears on paying most of its creditors.

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 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 condensed consolidated 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.

Between February 22, 2013 and April 1, 2013, the Company issued an aggregate of 4,180,000 shares of its common stock, par value $0.001 per share, at a per share price of $0.25, in a private placement to an aggregate of 19 accredited investors, including 450,000 shares issued to two affiliates of the Company, for gross cash proceeds to the Company of $1,045,000.

Between May 2, 2013 and June 30, 2013, the Company issued an aggregate of 1,710,000 shares of its common stock, par value $0.001 per share at a per share price of $0.25, in a private placement to an aggregate of 9 accredited investors for gross cash proceeds to the Company of $427,500.

The private placements were made pursuant to an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Regulation D thereunder, as the shares of common stock were issued to accredited investors, without a view to distribution, and not through any general solicitation or advertisement. The shares of common stock have not been, and will not be, registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

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 the concomitant reduction in authorized shares to 100,000,000 which was subsequently increased to 150,000,000 as of May 31, 2013.

The unaudited condensed consolidated financial statements of CNS Response, Inc. ("CNS," "we," "us," "our" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and include all the accounts of CNS and its wholly owned subsidiaries CNS California and NTC. Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our financial position as of June 30, 2013 and our operating results, cash flows, and changes in stockholders' equity for the interim periods presented. The September 30, 2012 balance sheet was derived from our audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited condensed consolidated financial statements and the related notes should be read in conjunction with our audited consolidated financial statements and notes for the year ended September 30, 2012 which are included in our current report on Form 10-K, filed with the Securities and Exchange Commission on January 15, 2013.

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

The results of operations for the nine months ended June 30, 2013 are not necessarily indicative of the results that may be expected for future periods or for the year ending September 30, 2013.

Basis of Consolidation

The condensed 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 condensed 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 June 30, 2013 cash exceeded the federally insured limit by $421,600. 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 (all as defined in Note 4 below) 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 $556,300 was booked to Other Expenses as a gain on extinguishment of debt. As of June 30, 2013 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 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 June 30, 2013.

	Carrying Value As of June 30, 2013	Fair Value Measurements at June 30, 2013 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Liabilities				
Senior secured convertible promissory note	$ 2,773,900	$ -	$ 2,773,900	$ -
Subordinated convertible promissory note	3,500,000	-	3,500,000	-
Unsecured convertible promissory note	90,000	-	90,000	-
Unsecured convertible promissory note (October 2012 Notes)	158,700	-	160,000	-
Total	$ 6,522,600	$ -	$ 6,523,900	$ -

For the nine months ending June 30, 2013 the Company recognized a loss of $97,600 on the change in fair value of derivative liabilities. For the nine months ending June 30, 2012 the Company recognized a gain of $918,000 on the change in fair value of derivative liabilities. As of June 30, 2013 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.

Furniture and Equipment

Furniture and Equipment, 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 nine months ended June 30, 2013 and 2012 was $8,500 and $12,700 respectively. Accumulated depreciation at June 30, 2013 and 2012 was $58,500 and $46,400 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. ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment allows the Company to make a qualitative evaluation about the likelihood of impairment to determine whether it should perform a quantitative impairment test. 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 nine months ended June 30, 2013 and 2012.

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 $23,300 and $93,100 in advertising expenses for the nine months ended June 30, 2013 and 2012.

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.

Stock Option Grant on December 10, 2012:

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 that was 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.

Stock Option Grant on January 14, 2013:

Based on the volume of shares traded on the open market, during the period October 1, 2012 through to January 14, 2013, the date of the option grant, management judged that the Company's stock was not actively traded as only $36,700 worth of stock was traded on 21 of 50 trading days during this period at prices ranging from $0.49 to $2.50. There had been a recent transaction which closed on November 30, 2012 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 that was 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 January 14, 2013.

Stock Option Grant on March 26, 2013:

Based on the volume of shares traded on the open market, during the period January 1, 2013 through to March 26, 2013, the date of the option grant, management judged that the Company's stock was not actively traded as only $283,400 worth of stock was traded on 22 of 58 trading days during this period at prices ranging from $0.46 to $0.83. There was a contemporaneous transaction whereby shares corresponding to $695,000 of a $2.5 million private placement of common stock purchased at a price of $0.25 per share by accredited third party investors. Given the low volume of stock that was traded, compared to the volume of the private placement of common stock, management's judgment was that the pricing of the private placement of common stock at $0.25 per share represented a better determinant of fair value of the Company's common stock and the options granted on March 26, 2013.

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. ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, 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. 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 June 30, 2013 and 2012.

Earnings (Loss) per Share

The Company has adopted the accounting principles generally accepted in the United States regarding earnings (loss) per share, 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 April 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-07 Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting, in order to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The Company does not expect the adoption of the standard update to have a material impact on its consolidated financial position or results of operations.

In February 2013, the FASB issued ASU 2013-04 Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date, in order to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of the standard update to have a material impact on its consolidated financial position or results of operations.

In February 2013, the FASB issued ASU 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, in order to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account (for example, inventory) instead of directly to income or expense in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company considers the adoption of the standard update will not impact its consolidated financial position or results of operations.

In January 2013, the FASB issued ASU 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, in order to clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815 , Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The Company does not expect the adoption of the standard update to have a material impact on its consolidated financial position or results of operations.

In July 2013, the FASB has issued ASU No. 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force), which finalizes Proposed ASU No. EITF-13C, and provides explicit guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryfoward exists. ASU No. 2013-11 applies prospectively to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. Retrospective application is also permitted. Further, ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The Company considers the adoption of the standard update will not impact its consolidated 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 June 30,	
	2013	**2012**
Neuro-Therapy Clinic		
Revenues	$ -	$ 163,200
Expenses	1,800	264,400
Operating Loss before taxes	$ (1,800)	$ (101,200)
Taxes	-	-
Net Loss	$ (1,800)	$ (101,200)

	Nine Months ended June 30,	
	2013	**2012**
Neuro-Therapy Clinic		
Revenues	$ -	$ 522,300
Expenses	15,200	851,800
Operating Loss before taxes	$ (15,200)	$ (329,500)
Taxes	-	-
Net Loss	$ (15,200)	$ (329,500)

The assets and liabilities of NTC are as follows:

	As at June 30,	
	2013	**2012**
ASSETS:		
Cash	$ 3,100	$ 9,500
Account Receivable	-	24,200
Prepaid Expenses	-	800
Security Deposit	-	5,800
Assets of Discontinued Operations	$ 3,100	$ 40,300
LIABILITIES:		
Accounts Payable	$ 61,300	$ 31,400
Accrued Payroll Liabilities	215,800	154,000
Liabilities of Discontinued Operations	$ 277,100	$ 185,400

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 June 30, 2013 are summarized in the following table and notes:

			As of June 30, 2013				
Note Type and Investor		**Amended Due Date**	**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)	Converted	-	-	-	-	-
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**	**$ 2,773,900**	**$ -**	**$ 2,773,900**	**16,668**	**2015**

Subordinated Secured 9% Notes Convertible at $1.00 (the "January 2011 Notes") (22)(23)(26)

		Amended Due Date	**Balance ($)**	**Discount ($)**	**Carrying Value ($)**	**Warrants Issued**	**Warrant Expiration Date**
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)	Converted	-	-	-	-	-
SAIL 2010 Co-investment Partners, LP	(3)	Converted	-	-	-	-	-
Pyxis Long/Short Healthcare Fund	(5)	10/01/2013	400,000	-	400,000	-	-
Monarch Capital: Placement Agent Warrants	(6)		-	-	-	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)	Converted	-	-	-	-	-
SAIL 2010 Co-investment Partners, LP	(3)	Converted	-	-	-	-	-
John M Pulos	(10)	10/01/2013	150,000	-	150,000	-	-
SAIL Venture Partners, LP	(3)	Converted	-	-	-	-	-
SAIL 2010 Co-investment Partners, LP	(3)	Converted	-	-	-	-	-
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**	**$ 1,500,000**	**$ -**	**$ 1,500,000**	**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			**$ 3,500,000**	**$ -**	**$ 3,500,000**	**50,502**	

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

Zanett Opportunity Fund, Ltd	(12)	10/01/2013	90,000	-	90,000	-	-
Total Unsecured Convertible Promissory Notes			**$ 90,000**	**$ -**	**$ 90,000**	**-**	

Unsecured 9% Notes Convertible at $0.04718 (the "October 2012" Notes) (26)

		Due Date	Balance ($)	Discount ($)	Carrying Value ($)	Warrants Issued	Warrant Expiration Date
SAIL Holdings, LLC	(3)	Converted	-	-	-	-	-
Tierney Family Trust	(15)	Converted	-	-	-	-	-
BluMont Northern Rivers Fund	(10)	10/01/2013	10,000	(1,300)	8,700	-	-
Meyer Proler, MD	(7)	Converted	-	-	-	-	-
Tierney Family Trust	(15)	Converted	-	-	-	-	-
The Follman Trust	(16)	Converted	-	-	-	-	-
Extuple Limited Partnership	(17)	10/25/2013	150,000	-	150,000	-	-
SAIL 2010 Co-investment Partners, LP	(3)	Converted	-	-	-	-	-
SAIL 2011 Co-investment Partners, LP	(3)	Converted	-	-	-	-	-
SAIL Venture Partners II, LP	(3)	Converted	-	-	-	-	-
AlphaNorth Offshore, Inc.	(13)	Converted	-	-	-	-	-
Argyris & Ann Vassiliou	(10)	Converted	-	-	-	-	-
George Carpenter	(8)	Converted	-	-	-	-	-
John Pappajohn	(1)	Converted	-	-	-	-	-
Andy Sassine	(4)	Converted	-	-	-	-	-
Mark & Jill Oman	(18)	Converted	-	-	-	-	-
Ronald Dozoretz, MD	(19)	Converted	-	-	-	-	-
Larry Hopfenspirger	(20)	Converted	-	-	-	-	-
Monarch Capital: Placement Agent Warrants	(6)		-	-	-	127,173	03/25/2018
Tony Pullen: Placement Agent Warrants	(14)		-	-	-	519,288	03/25/2018
Total Unsecured Convertible Promissory (October 2012) Notes			**$ 160,000**	**$ (1,300)**	$ **158,700**	**646,461**	**-**
Total			**$ 6,523,900**	**$ (1,300)**	**$ 6,522,600**	**713,631**	**2015-2018**

(For converted notes refer to Footnote 5. Stockholders' Deficit)

(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 two 2011 Bridge Financings was $500,000 and warrants to purchase 166,668 shares of common stock for gross proceeds to the Company of $500,000.

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.

On January 25, 2013, Mr. Pappajohn converted $200,000 of the November 28, 2012 to purchase 4,300,551 shares of common stock at $0.04718 per share.

On March 21, 2013, Mr. Pappajohn converted $300,000 of the November 28, 2012 to purchase 6,538,258 shares of common stock at $0.04718 per share.

(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.

On January 31, 2013, Mr. Schindler converted all notes held by all the SAIL entities totaling $1,440,000 into 5,631,699 shares of common stock; of this total $250,000 of the October 2010 Notes plus interest were converted at $1.00 per share, $1,000,000 of the January 2011 Notes plus interest were converted at $1.00 per share and $190,000 of the October 2012 Notes were converted at $0.04718 per share. *See note 5 Stockholders Deficiency Convertible Debt instruments converted to shares of common stock.*

(4) Mr. Andy Sassine is a Director of the Company. On April 30, 2013, Mr. Sassine converted $25,000 of the November 29, 2012 to purchase 550,021 shares of common stock at $0.04718 per share.

(5) Pyxis Long/Short Healthcare Fund (FKA Highland Long/Short Healthcare Fund) is affiliated with Cummings Bay Capital LP.

(6) Monarch Capital Group LLC ("Monarch") acted as non-exclusive placement agent with respect to the October 12, 2010 placement of October 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 were issued five-year warrants to purchase an aggregate of up to 127,173 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. On April 11, 2013, Mr. Proler converted $50,000 of the August 22, 2012 to purchase 1,121,238 shares of common stock at $0.04718 per share.

(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.

On March 27, 2013, Mr. Carpenter converted $50,000 of the October 2012 Note plus interest into 1,091,299 shares of common stock at $0.04718 per share.

(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 148,368 shares of common stock at $0.04718 per share.

On March 28, 2013, AlphaNorth Offshore, Inc. converted $39,100 of the October 2012 Note, plus interest to purchase 858,415 shares of common stock at $0.04718 per share.

On May 16, 2013, AlphaNorth Offshore, Inc. converted $60,900 of the October 2012 Note, plus interest to purchase 1,352,181 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.

Mr. Tony Pullen, who has an association with Innerkip, was acting as a nonexclusive placement agent with respect to the placement of an aggregate of $350,000 invested in October 2012 notes by three accredited Canadian investors. Mr. Pullen received aggregate cash finder's fee of $24,500 and has been issued a five-year warrant to purchase an aggregate of up to 519,288 shares of the Company's common stock at an exercise price of $0.04718 per share.

(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 of the Company and a beneficial owner of more than 5% of our outstanding common stock.

On January 31, 2013, Tierney Family Trust converted two October 2012 Notes, in aggregate $200,000, plus interest into 4,403,349 shares of common stock at a conversion price of $0.04718 per share.

(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 of the Company and a beneficial owner of more than 5% of our outstanding common stock.

On June 14, 2013, Mr. Follman as a trustee of the Follman Trust converted the October 2012 Note, in aggregate $200,000, plus interest into 4,491,310 shares of common stock at a conversion price of $0.04718 per share.

(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 296,735 shares of common stock at $0.04718 per share. On June 14, 2013, Extuple Limited Partnership ("Extuple") converted $50,000 of the October 2012 Note, plus interest into 1,121,237 shares of common stock at a conversion price of $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. On April 30, 2013, Mr. and Mrs. Oman converted $250,000 of the October 2012 Note to purchase 5,500,212 shares of common stock at $0.04718 per share.

(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. On June 14, 2013, Dr. Dozoretz converted $100,000 of the October 2012 Note, plus interest into 2,223,929 shares of common stock at a conversion price of $0.04718 per share.

(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. On January 18, 2013 Mr. Hopfenspirger converted his $60,000 October 2012 Note plus interest into 1,287,303 shares of common stock at $0.04718 per share.

(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 $556,300 during the first quarter ended December 31, 2012 of fiscal 2013.

(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.

As of June 30, 2013 the majority of the October 2012 Notes had converted their notes to shares of common stock, consequently pursuant to section 7.13 of the Second Amended and Restated Security Agreement dated August 16, 2012, the security interest for the October 2012 Notes is terminated.

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 nine months ended June 30, 2013, $661,000 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.

From January 18, 2013 through June 30, 2013 October 2012 Notes in the aggregate amount of $1,838,100 plus interest thereon converted to 40,403,929 shares of common stock at a conversion price of $0.04718 per share. Additionally an October 2010 Note of $250,000 plus interest thereon and six January 2011 Notes in aggregate $1,000,000 plus interest thereon converted to 1,469,816 shares of common stock at a conversion price $1.00 per share. For the nine months ended June 30, 2013 $661,000 of amortization of loan discount was recorded as interest expense.

As of June 30, 2013 outstanding senior subordinated convertible promissory notes (October 2010 Notes) were $2,773,900 (including $23,900 corresponding to accrued and unpaid interest on the exchanged notes) and debt discount was $0. During the nine months ended June 30, 2013 the Company amortized no debt discount.

As of June 30, 2013 outstanding subordinated secured convertible promissory notes (January 2011 Notes) were $1,500,000 and debt discount was $0. During the nine months ended June 30, 2013 the Company amortized no debt discount.

As of June 30, 2013 outstanding subordinated secured convertible promissory notes (October 2011 Notes) were $2,000,000 and debt discount was $0. During the nine months ended, June 30, 2013 the Company amortized $277,100 of the debt discount.

As June 30, 2013 outstanding unsecured convertible promissory notes (Unsecured Bridge Notes) were $90,000 and debt discount was $0. During the nine months ended June 30, 2013 the Company amortized $15,000 of the debt discount.

As of June 30, 2013 outstanding Unsecured convertible promissory note (October 2012) promissory notes (October 2012 Bridge Notes) were $160,000 and debt discount was $1,300. During the nine months ended June 30, 2013 the Company amortized $368,900 of the debt discount.

The combined outstanding senior secured, subordinated secured and unsecured (including October 2012 Notes whose security has terminated) convertible promissory notes as of June 30, 2013 were $6,523,900 and debt discounts were $1,300. During the nine months ended June 30, 2013 the Company amortized $661,000 of the debt discount.

5. STOCKHOLDERS' DEFICIT

Common and Preferred Stock

As of June 30, 2013, the Company is authorized to issue 165,000,000 shares of stock of which 150,000,000 are common stock at par value of $0.001 per share and the remaining 15,000,000 are blank-check preferred stock, with a par value of $0.001 per share. Our Board of Directors is authorized to provide for one or more series of preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers, if any, of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. The powers, preferences and relative, participating, optional and other special rights of each series of preferred stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

As of June 30, 2013, 49,843,710 shares of common stock were issued and outstanding and no shares of preferred stock were issued or outstanding.

As of June 30, 2013, 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 June 30, 2013, Colorado CNS Response, Inc. is authorized to issue 1,000,000 no par value shares of common stock.

As of June 30, 2013, 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.

From January 18, 2013 through June 30, 2013 the following note holders have converted their notes into shares of common stock.

Conversion Date	Bridge Note Originated	Note #4 Reference	Name	Note Tranche	Note Amount	Conversion Price per Shar	Total Shares
01/18/13	11/30/12	(20)	Larry Hopfenspirger	October 2012	$ 60,000	0.04718	1,287,303
01/25/13	11/28/12	(01)	John Pappajohn	October 2012	200,000	0.04718	4,300,551
01/31/13	08/21/12	(15)	Tierney Family Trust	October 2012	100,000	0.04718	2,205,914
01/31/13	09/06/12	(15)	Tierney Family Trust	October 2012	100,000	0.04718	2,197,435
01/31/13	10/01/10	(03)	SAIL Venture Partners, LP	October 2010	250,000	1.00000	303,313
01/31/13	02/28/11	(03)	SAIL Venture Partners, LP	January 2011	187,500	1.00000	220,454
01/31/13	04/15/11	(03)	SAIL Venture Partners, LP	January 2011	250,000	1.00000	291,063
01/31/13	04/25/11	(03)	SAIL Venture Partners, LP	January 2011	125,000	1.00000	145,219
01/31/13	02/28/11	(03)	SAIL 2010 Co-Investment Partners, LP	January 2011	62,500	1.00000	73,485
01/31/13	04/15/11	(03)	SAIL 2010 Co-Investment Partners, LP	January 2011	250,000	1.00000	291,063
01/31/13	04/25/11	(03)	SAIL 2010 Co-Investment Partners, LP	January 2011	125,000	1.00000	145,219
01/31/13	08/17/12	(03)	SAIL Holding LLC	October 2012	100,000	0.04718	2,208,034
01/31/13	10/26/12	(03)	SAIL Venture Partners II, LP	October 2012	50,000	0.04718	1,085,471
01/31/13	10/26/12	(03)	SAIL 2010 Co-Investment Partners, LP	October 2012	20,000	0.04718	434,189
01/31/13	10/26/12	(03)	SAIL 2011 Co-Investment Partners, LP	October 2012	20,000	0.04718	434,189
02/07/13	08/22/12	(10)	BluMont Northern Rivers Fund	October 2012	21,700	0.04718	480,000
03/21/13	11/28/12	(01)	John Pappajohn	October 2012	300,000	0.04718	6,538,258
03/26/13	08/22/12	(10)	BluMont Northern Rivers Fund	October 2012	16,400	0.04718	366,629
03/27/13	11/28/12	(08)	George Carpenter	October 2012	50,000	0.04718	1,091,299
03/28/13	11/06/12	(13)	AlphaNorth Offshore, Inc.	October 2012	39,100	0.04718	858,415
04/11/13	08/22/12	(07)	Meyer Proler MD	October 2012	50,000	0.04718	1,121,238
04/30/13	11/29/12	(18)	Mark & Jill Oman	October 2012	250,000	0.04718	5,500,212
04/30/13	11/29/12	(04)	Andy Sassine	October 2012	25,000	0.04718	550,021
05/16/13	11/06/12	(13)	Alpha North Offshore, Inc.	October 2012	60,900	0.04718	1,352,181
06/14/13	10/19/12	(16)	The Follman Trust	October 2012	200,000	0.04718	4,491,310
06/14/13	10/25/12	(17)	Extuple Limited Partnership	October 2012	50,000	0.04718	1,121,237
06/14/13	11/28/12	(10)	Argyris & Ann Vassiliou	October 2012	25,000	0.04718	556,114
06/14/13	11/29/12	(19)	Ronald Dozoretz MD	October 2012	100,000	0.04718	2,223,929
				Total	**$ 3,088,100**		**41,873,745**

From February 22, 2013 through April 1, 2013, 19 accredited investors purchased an aggregate of 4,180,000 shares of common stock at a price of $0.25 per share in a private placement. The Company received gross aggregate cash proceeds of $1,045,000. The investors included two affiliates, one of which is the Tierney Family Trust of which Mr. Thomas Tierney, a Director of the Company, is a trustee. The Tierney Family Trust acquired 400,000 shares of common stock for which the Company received cash proceeds of $100,000. A second affiliate investor is Paul Buck, the Company's CFO, who acquired 50,000 shares of common stock for which the Company received cash proceeds of $12,500.

On March 26, 2013 the Board resolved to amend the Company's Charter in order to:

1) increase the number of shares of common stock authorized for issuance under the Charter from 100,000,000 to 150,000,000; and
2) create one or more series of preferred stock, par value $0.001 per share, and authorize 15,000,000 shares of such preferred stock for issuance.

This amendment to the Charter was approved by more than 80% of the shareholders eligible to vote at the annual meeting of shareholders which was held on May 23, 2013.

From May 23, 2013 through June 27, 2013, 9 accredited investors purchased an aggregate of 1,710,000 shares of common stock at a price of $0.25 per share pursuant to a private placement. The Company received gross aggregate cash proceeds of $427,500.

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.

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, (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.

On January 14, 2013, the Board granted options to purchase 1,960,000 shares of common stock to members of staff and 1,600,000 share of common stock to key consultants. The options granted to staff vest evenly over 48 months starting on the date of grant. The options granted to consultants vest evenly over 36 months starting on the date of grant. All these options have an exercise price of $0.04718 per share.

Based on the volume of shares traded on the open market, during the period October 1, 2012 through to January 14, 2013, the date of the option grant, management judged that the Company's stock was not actively traded as only $36,700 worth of stock was traded on 21 of 50 trading days during this period at prices ranging from $0.49 to $2.50. There had been a recent transaction which closed on November 30, 2012 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 January 14, 2013.

On March 26, 2013, the Board approved the amendment of the Company's 2012 Plan to increase the shares authorized for issuance under the 2012 Plan from 5,500,000 shares to 15,000,000 shares. The Board also granted options to purchase 250,000 shares of common stock to Thomas Tierney upon his election to be Chairman of the Board of Directors. These options granted to Mr. Tierney vest evenly over 36 months starting on the date of grant and have an exercise price of $0.25 per share.

Based on the volume of shares traded on the open market, during the period January 1, 2013 through to March 26, 2013, the date of the option grant, management judged that the Company's stock was not actively traded as only $283,400 worth of stock was traded on 22 of 58 trading days during this period at prices ranging from $0.46 to $0.83. There was a contemporaneous transaction whereby $695,000 worth of a $2.5 million private placement offering of common stock at a price of $0.25 per share were purchased by accredited third party investors. Given the low volume of stock which was not actively traded, compared to the volume of the private placement of common stock, management's judgment was that the pricing of the private placement of common stock at $0.25 per share represented a better determinant of fair value of the Company's common stock and the options granted on March 26, 2013.

The 2012 Plan, as amended, was approved by our shareholders at the 2013 annual meeting held on May 23, 2013.

As of June 30, 2013, 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. 9,247,670 options have been issued under the 2012 Plan, none of which have been exercised, leaving 5,752,330 available for issuance.

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 and nine months ended June 30, 2013 and 2012 is as follows:

	For the three months ended June 30,	
	2013	**2012**
Cost of Neurometric Services revenues	$ 2,700	$ 2,500
Research	21,900	24,000
Product Development	33,600	19,000
Sales and marketing	30,300	49,500
General and administrative	205,000	245,200
Total	$ 293,500	$ 340,200

	For the nine months ended June 30,	
	2013	2012
Cost of Neurometric Services revenues	$ 7,900	$ 7,600
Research	70,800	75,200
Product Development	82,600	53,600
Sales and marketing	129,400	147,400
General and administrative	696,300	726,900
Total	$ 987,000	$ 1,010,700

Total unrecognized compensation as of June 30, 2013 amounted to $1,063,500.

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
Granted	3,810,000	0.06
Exercised	-	-
Forfeited	-	-
Outstanding at March 31, 2013	9,749,594	$ 1.00
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at June 30, 2013	9,749,594	$ 1.00

Following is a summary of the status of options outstanding at June 30, 2013:

Exercise Price	Number of Shares	Weighted Average Contractual Life	Weighted Average Exercise Price
$ 0.04718	8,955,000	10 years	$ 0.04718
$ 0.25	250,000	10 years	$ 0.25
$ 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	9,749,594		$ 1.00

We have entered into agreements on June 3, 2011 with the majority of our 2006 Plan option holders pursuant to which holders of options to purchase an aggregate of 439,689 shares of our common stock, at exercise prices ranging from $3.60 per share to $32.70 per share, have agreed to amend their options to permit exercise only in cash and to limit the period during which the options may be exercised post-termination to 90 days (for employees) and twelve months (for consultants).

We have agreed to freeze any further grants or exercises of securities under the 2006 Plan and adopt the 2012 Stock Incentive Plan, which was approved at the 2013 Annual Meeting of Stockholders held on May 23, 2013.

Warrants to Purchase Common Stock

The warrant activity for the period starting October 1, 2011, through June 30, 2013 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: 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. 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. 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. 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. 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. 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. 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
127,173	$	0.04718	These warrants were issued to Monarch Capital who acted as placement agents in raising $60,000 from one investor who purchased October 2012 Notes pursuant to the 2012 Bridge Note October Purchase Agreement described in Note 4.
519,288	$	0.04718	These warrants due to be issued to Tony Pullen who acted as placement agents in raising $350,000 from three investors who purchased October 2012 Notes pursuant to the 2012 Bridge Note October Purchase Agreement described in Note 4.
152,000	$	0.275	These warrants were issued to Monarch Capital who acted as placement agents in raising $380,000 from twelve accredited investors who purchased common stock, par value $0.001 per share, in a private placement agreements dated February 20, 2013 and May 23, 2013.
100,000	$	0.25	These warrants were issued to D&D Securities Inc. in connection with the Company's private offering to select accredited investors of shares of restricted common stock at a private of $0.25 per share, in a private placement agreement dated February 20, 2013.
1,445,556		3.13	**Warrants outstanding at June 30, 2013**

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 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.

Pursuant to a Placement Agent Agreement dated April 15, 2013, the Company issued a warrant to purchase 100,000 shares of common stock to Dominick & Dominick Securities ("D&D"), Inc. dated April 15, 2013. This warrant was issued as a result of D&D placing $350,000 worth of stock at $0.25 per share with two accredited investors pursuant to our securities purchase agreement/subscription agreement dated February 20, 2013.

Pursuant to a Placement Agent Agreement dated January 23, 2013, the Company issued warrants to purchase 152,000 shares of common stock to Monarch Capital ("Monarch") and its designee on June 30, 2013. These warrants were issued as a result of Monarch placing $380,000 worth of stock at $0.25 per share with 12 accredited investors pursuant to our securities purchase agreement/subscription agreements dated February 20, 2013 and May 23, 2013.

The fair market value of the D&D and Monarch warrants was determined using the Black Scholes Model. Based on the volume of shares traded on the open market, during the period January 1, 2013 through June 30, 2013, management concluded that the Company's stock was not actively traded as only $319,100 worth of stock was traded on 46 of 129 trading days during this period at prices ranging from $0.49 to $2.50. During this period, we effected private placement transactions between February 20, 2013 and April 30, 2013, and subsequent private placements between May 23, 2013 and June 30, 2013. These private placements resulted in almost 5.9 million shares of common stock being issued to accredited investors at a price of $0.25 per share for an approximate aggregate amount of $1.5 million. Given the low volume of stock traded in the public market compared to the greater volume of stock issued in the private placement transactions, management's judgment was that the $0.25 private placement stock price represented a better determinant of fair value of the Company's common stock and the warrants issued during the April through June 2013 period than the prices quoted on the OTC Bulletin Board.

At June 30, 2013, there were warrants outstanding to purchase 1,445,556 shares of the Company's common stock. The exercise price of the outstanding warrants range from $0.04718 to $9.90 with a weighted average exercise price of $3.13. The warrants expire at various times starting 2014 through 2018.

6. RELATED PARTY TRANSACTIONS

Dr. Henry Harbin, who was a director at the time, has had a year-long consulting agreement which started in January 2010 and was renewed annually until December 2012. During this period the Company had accrued $90,000 which was to be paid to Dr. Harbin. Dr. Harbin resigned from the Board on November 18, 2012. Effective January 2013 Dr. Harbin entered into a new consulting agreement with the Company which terminates on December 31, 2013, and has two automatic annual renewal options which would engage his consulting services through December 2015. As compensation for his consulting services Dr. Harbin was granted on January 14, 2013, options to purchase 850,000 shares of common stock at an exercise price of $0.04718 per share. These shares vest evenly over 36 months starting at the date of the grant. Dr. Harbin, understanding the Company's cash constraints, forgave the Company's $90,000 debt accrued to him.

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. Dr. George Kallins resigned from the Board of Directors effective November 30, 2012.

On November 24, 2010 the Board of Directors, excluding Mr. Pappajohn, resolved to ratify an engagement agreement with Equity Dynamics, Inc. a company owned by Mr. Pappajohn, to provide financial advisory services to assist the Company with the Company's fund raising efforts. These efforts have included advice and assistance with the preparation of Private Placement Memoranda, investor presentations, financing strategies, identification of potential and actual investors, and introductions to placement agents and investment bankers. The engagement agreement calls for a retainer fee of $10,000 per month starting February 1, 2010. As of June 30, 2013 the Company had accrued $312,600 for the services provided by Equity Dynamics of which $155,000 has been paid, $157,600 of consulting fees due and payable at June 30, 2013. 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. This agreement has now been terminated.

On February 15, 2011, pursuant to the January Purchase Agreement, we issued to 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. *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 had 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 Mr. 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 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. As of February 25, 2013, Mr. Tierney is a Director of the company and a greater than 5% beneficial owner. As of January 31, 2013, the Tierney Family Trust converted its two October 2012 Notes, in aggregate $200,000, plus interest thereon into 4,403,349 shares of common stock at a conversion price of $0.04718 per share.

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. As of January 31, 2013, Dr. Proler converted his August 2012 Notes, in aggregate $50,000, plus interest thereon into 1,121,238 shares of common stock at a conversion price of $0.04718 per share.

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. As of February 25, 2013, Mr. Follman is a Director of the Company and a greater than 5% beneficial owner of the Company. On June 14, 2013, the Follman Trust converted their October 2012 Note and interest thereon to into 4,491,310 shares of common stock at a conversion price $0.04718 per share.

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 June 14, 2013, the Extuple converted $50,000 of their October 2012 Note and interest thereon to into 1,121,237 shares of common stock at a conversion price $0.04718 per share.

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. On January 25, 2013, Mr. Pappajohn converted $200,000 of his October 2012 Note plus interest thereon into 4,300,551 shares of common stock at a conversion price of $0.04718 per share. On March 21, 2013, Mr. Pappajohn converted the remaining $300,000 of his October 2012 Note plus interest thereon into 6,538,258 shares of common stock at a conversion price of $0.04718 per share.

Also on November 28, 2012, we issued October 2012 Notes in exchange for cash in the aggregate principal amount of $50,000 to Mr. Carpenter, the Chief Executive Officer of the Company. On March 27, 2013, Mr. George Carpenter converted his October 2012 Note and interest thereon into 1,091,299 shares of common stock at a conversion price of $0.04718 per share.

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. As of February 25, 2013, Mr. Sassine is a Director of the Company. On April 30, 2013, Mr. Sassine converted his October 2012 Note and interest thereon to into 550,021 shares of common stock at a conversion price $0.04718 per share.

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. On April 30, 2013, Mr. & Mrs. Oman converted their October 2012 Note and interest thereon into 2,223,929 shares of common stock at a conversion price of $0.04718 per share.

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 was at one time a greater than 5% beneficial owner of the Company. On June 14, 2013, Dr. Dozoretz converted his October 2012 Note and interest thereon to into 2,223,929 shares of common stock at a conversion price $0.04718 per share.

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 was at one time a greater than 5% beneficial owner of the Company. On January 18, 2013, Mr. Hopfenspirger converted his $60,000 October 2012 Note, plus interest thereon, into 1,287,303 shares of common stock at a conversion price of $0.04718 per share.

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.

On January 31, 2013, the SAIL entities converted all their convertible notes in the aggregate principal amount of $1,440,000 and $226,200 of interest thereon into 5,631,699 shares of common stock. Of these conversions $250,000 was an October 2010 Note together with interest of $53,300 converted into 303,313 shares of common stock at a conversion price of $1.00 per share. $1,000,000 in aggregate were six January 2011 Notes together with interest of $166,500 which converted into 1,166,503 shares of common stock at a conversion price of $1.00. And lastly, $190,000 in aggregate were four October 2012 Notes together with interest of $7,000 which converted into 4,161,883 shares of common stock at a conversion price of $0.04718 per share. All these shares were converted by Walter Schindler, a Director of the Company, on behalf of all the various SAIL entities.

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 took office as directors on February 25, 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.

On February 22, 2013, Paul Buck our Chief Financial Officer of the Company, invested $12,500 for 50,000 shares of common stock at $0.25 per share pursuant to a subscription agreement. The Company received gross cash proceeds of $12,500.

On February 28, 2013, Dr. Proler invested $25,000 for 100,000 shares of common stock at $0.25 per share pursuant to a subscription agreement. The Company received gross cash proceeds of $25,000. On April 11, 2013, Mr. Proler converted $50,000 of the August 22, 2012 to purchase 1,121,238 shares of common stock at $0.04718 per share.

On March 18, 2013, Tierney Family Trust, of which Mr. Tierney our Chairman of the Board is a trustee, invested $100,000 for 400,000 shares of common stock at a price of $0.25 per share pursuant to a subscription agreement. The Company received gross cash proceeds of $100,000.

For May and June 2013, we accrued $10,000 per month for an aggregate of $20,000 for marketing services provided by Decision Calculus Associates ("DCA"), an entity operated by the spouse of George Carpenter, our Chief Executive Officer. To date no payments have been made to DCA pending approval of this consulting agreement by the Board.

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. EARNINGS (LOSS) PER SHARE

In accordance with ASC 260-10 (formerly SFAS 128, "Computation of Earnings Per Share"), basic net income (loss) per share is computed by dividing the net income (loss) to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. For the three months and nine months ended June 30, 2013 and 2012, 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 earnings (loss) and shares used to compute net income (loss) per share for the three months ended June 30, 2013 and 2012 are as follows:

	Three months ended June 30,	
	2013	**2012**
Net Loss for computation of basic net loss per share:		
From continuing operations	$ (1,332,200)	$ 3,716,400
From discontinued operations	$ (1,800)	$ (101,200)
Net loss	$ (1,334,000)	$ 3,615,200
Basic net loss per share:		
From continuing operations	$ (0.03)	$ 1.98
From discontinued operations	$ (0.00)	$ (0.05)
Basic net loss per share	$ (0.03)	$ 1.93
Net Loss for computation of dilutive net loss per share:		
From continuing operations	$ (1,332,200)	$ 3,716,400
From discontinued operations	$ (1,800)	$ (101,200)
Net loss	$ (1,334,000)	$ 3,615,200
Diluted net earnings (loss) per share:		
From continuing operations	$ (0.03)	$ 0.52
From discontinued operations	$ (0.00)	$ (0.01)
Basic net earnings (loss) per share	$ (0.03)	$ 0.51
Basic weighted average shares outstanding	42,691,256	1,874,175
Dilutive common equivalent shares	-	5,226,232
Diluted weighted average common shares	42,691,256	7,100,407
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	15,484,248	2,537,964
Warrants	1,344,222	2,164,440
Options	9,749,594	523,828

A summary of the net loss and shares used to compute the loss per share for the nine months ended June 30, 2013 and 2012 are as follows:

	Nine months ended June 30,	
	2013	2012
Net Loss for computation of basic net loss per share:		
From continuing operations	$ (3,823,300)	$ (7,180,800)
From discontinued operations	$ (15,200)	$ (329,500)
Net loss	$ (3,838,500)	$ (7,510,300)
Basic net loss per share:		
From continuing operations	$ (0.17)	$ (3.83)
From discontinued operations	$ (0.00)	$ (0.18)
Basic net loss per share	$ (0.17)	$ (4.01)
Net Loss for computation of dilutive net loss per share:		
From continuing operations	$ (3,823,300)	$ (7,180,800)
From discontinued operations	$ (15,200)	$ (329,500)
Net loss	$ (3,838,500)	$ (7,510,300)
Diluted net loss per share:		
From continuing operations	$ (0.17)	$ (3.83)
From discontinued operations	$ (0.00)	$ (0.18)
Basic net loss per share	$ (0.17)	$ (4.01)
Basic weighted average shares outstanding	22,336,772	1,873,902
Dilutive common equivalent shares	-	-
Diluted weighted average common shares	22,336,772	1,873,902
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	28,520,408	2,206,186
Warrants	1,064,338	1,909,184
Options	7,429,517	525,206

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. 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 modifying certain of their claims, but did not add new claims. On February 6, 2013, the plaintiffs moved for leave to amend the second amended complaint and file a third amended complaint. On March 6, 2013 the Court granted leave to amend, but awarded fees and costs for the defendants to again make dispositive motions. The third amended complaint adds a claim for breach of the promissory note and seeks to foreclose on the collateral securing the note obligation. In addition, 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.

Discovery is ongoing and the Company continues to aggressively defend the action. The Company believes the third amended complaint, like the prior complaints, is without merit. The Company has not accrued any amounts related to this matter. 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 Services business premises located at 85 Enterprise, Aliso Viejo, California 92656. On January 29, 2013, we signed a 12 month extension of our lease. The lease period started 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. The remaining lease obligation totals $24,900.

The Company leased space for its Clinical Services, our discontinued operation, 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 had an average cost for the lease term of $5,100 per month. 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 $12,400 and $10,900 for the three months ended June 30, 2013 and 2012, respectively and $35,300 and $32,700 for the nine months ended June 30, 2013 and 2012, respectively. Rent expense from discontinued operations was $0 and $16,800 for the three months ended June 30, 2013 and 2012 and $0 and $49,900 for the nine months ended June 30, 2013 and 2012

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 June 30, 2013 the remaining lease obligation is $6,200: being $1,200 and $5,000 for fiscal years 2014.

On April 24, 2013 we entered into a financial lease to acquire additional EEG equipment costing $8,900. The term of the lease is 36 months ending May 2016 and the monthly payment is $325. As of June 30, 2013 the remaining lease obligation is $11,100: being $1,000, $3,900 and $2,300 for fiscal years 2014, 2015 and 2016 respectively.

	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	$ 17,300	$ 2,200	$ 12,800	2,300	-
Operating Lease Obligations, current operations	29,000	29,000	-	-	-
Operating Lease Obligations, discontinued operations	-	-	-	-	-
Total	$ 46,300	$ 31,200	$ 12,800	2,300	-

9. SUBSEQUENT EVENTS

Events subsequent to June 30, 2013 have been evaluated through the date these financial statements were issued, to determine whether they should be disclosed to keep the financial statements from being misleading. The following events have occurred since June 30, 2013.

On July 22, 2013, one affiliated accredited investor, the Tierney Family Trust, of which Thomas Tierney our Chairman of the Board is a trustee, purchased an aggregate of 400,000 shares of common stock at a price of $0.25 per share pursuant to a Private Placement Offering Memorandum dated May 23, 2013. The Company received gross aggregate cash proceeds of $100,000.

On August 12, 2013, all of the holders of $1.00 convertible notes ("$1 Note(s)") (see Note 4 above) converted $1 Notes in the aggregate principal amount of $6,363,900, plus $1,359,400 in accrued interest thereon, into shares of common stock at the price of $0.25 per share. The conversion followed an amendment of the Notes to permit a temporary reduction in the conversion price from $1.00 per share to $0.25 per share. All $1.00 Note holders consented to the amendment and converted their Notes and interest thereon at a conversion price of $0.25 per share of common stock with the resultant issuance of 30,893,419 shares. The $1.00 Note holders included four affiliates of the Company:

- Mr. John Pappajohn, a Director of the Company converted six notes with an aggregate principal amount of $1,511,700, plus $317,900 of interest thereon, into 7,318,228 shares of common stock;
- Mr. Andy Sassine, a Director of the Company, converted two notes with an aggregate principal amount of $700,000, plus $174,600 of interest thereon, into 3,498,200 shares of common stock;
- Mr. Zach McAdoo, a Director of the Company, converted three notes held by the Zanett Opportunity Fund, Ltd., of which he is the President, with an aggregate principal amount of $380,000, plus $57,200 of interest thereon, into 1,748,720 shares of common stock;
- Mr. Paul Buck, the CFO of the Company, converted one note with a principal amount of $75,000, plus $14,900 of interest thereon, into 359,450 shares of common stock;

As of August 12, 2013, all of our convertible debt has been converted to equity except for two October 2012 Notes with an aggregate balance of $160,000 and interest thereon of $11,680.

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 of Financial Condition and Results of Operation" and other information contained in such Form 10-K. The following discussion and analysis also should be read together with our consolidated financial statements and the notes to the consolidated financial statements included elsewhere in this Form 10-Q.

This discussion summarizes the significant factors affecting the condensed consolidated operating results, financial condition and liquidity and cash flows of CNS Response, Inc. for the three and nine months ended June 30, 2013 and 2012. 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, among other things, future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new products or services; our statements concerning litigation or other matters; statements concerning projections, predictions, expectations, estimates or forecasts for our business, financial and operating results and future economic performance; statements of management's goals and objectives; trends affecting our financial condition, results of operations or future prospects; our financing plans or growth strategies; and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements.

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

- *our limited capital and inability to raise additional funds to support operations and capital expenditures;*
- *our inability to gain widespread acceptance of our PEER Reports in existing and new market segments;*
- *our inability to prevail in convincing the FDA that our rEEG or PEER Online service does not constitute a medical device and should not be subject to regulation as such;*
- *our inability to successfully compete against existing and future competitors;*
- *our inability to manage and maintain the growth of our business;*
- *our inability to protect our intellectual property rights; and*
- *other factors discussed under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" in our Annual Report on Form 10-K for the year ended September 30, 2012 and in this Quarterly Report on Form 10-Q.*

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

Overview

We are a 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 have commenced a reimbursed 2,000 patient trial at Walter Reed National Military Medical Center ("Walter Reed" or "WRNMMC") and Fort Belvoir Community Hospital (Fort Belvoir) in Virginia focused on patients suffering from 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 and Fort Belvoir at a standard rate of $540 for each PEER Outcome report rendered in the study. PEER stands for Psychiatric EEG Evaluation Registry ("PEER").

During the quarter the Company completed training of physicians and implemented testing services at Walter Reed, and began implementation of testing services at Ft. Belvoir. Additionally, under an agreement with Henry Jackson Foundation, the Company is placing study personnel in each location including a study monitor, EEG technicians, and clinical research coordinators.

Neurometric 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 35,500 outcomes within the database from over 9,200 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. It is the company's present intention to expand from the first few military treatment sites involved in the current trial during 2013, to up to seven more military treatment facilities during 2014 representing approximately 70% of the active military patient volume. The PEER Interactive trial led by Walter Reed will provide a significant and visible demonstration of the utility of PEER for wounded warriors and their families, which we believe will support broader adoption of PEER by consumers.

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). Indeed, the NIMH made an extraordinary announcement in April 2013, declaring that it will no longer fund research in mental health that uses the Diagnostic and Statistical Manual (DSM) -- often called "the bible" of Psychiatry -- because of its inherent lack of scientific validity. Director Thomas R. Insel, MD explains:

> *"While DSM has been described as a "Bible" for the field, it is, at best, a dictionary, creating a set of labels and defining each. The strength of each of the editions of DSM has been "reliability" – each edition has ensured that clinicians use the same terms in the same ways. The weakness is its lack of validity. Unlike our definitions of ischemic heart disease, lymphoma, or AIDS, the DSM diagnoses are based on a consensus about clusters of clinical symptoms, not any objective laboratory measure. In the rest of medicine, this would be equivalent to creating diagnostic systems based on the nature of chest pain or the quality of fever. Indeed, symptom-based diagnosis, once common in other areas of medicine, has been largely replaced in the past half century as we have understood that symptoms alone rarely indicate the best choice of treatment. Patients with mental disorders deserve better."*

The implications for mental health care in general, and for CNS Response in particular, are profound. As the only objective, evidence-based physiological biomarker report in the category, we believe this is welcome news for products like PEER. In the coming quarters, we anticipate the potential realignment of payers, physicians and specialties around the use of objective markers of treatment response.

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 have limited ability to meet our current obligations as they become due and we are in arrears on paying most of our creditors.

Since our inception, we have generated significant net losses. As of June 30, 2013, we had an accumulated deficit of approximately $49.2 million, and as of September 30, 2012, our accumulated deficit was approximately $45.6 million. We incurred operating losses of $3.0 million and $3.7 million for the nine months ended June 30, 2013 and 2012 respectively and incurred net losses of $3.8 million and $7.5 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 being conducted at Walter Reed National Military Medical Center ("Walter Reed") and Fort Belvoir Community Hospital, 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 June 30, 2013 our current liabilities of approximately $11.9 million exceeded our current assets of approximately $0.8 million by approximately $11.1 million and, assuming we are able to continue our operations, our net losses will continue for the foreseeable future. As part of the $11.9 million of current liabilities we have approximately $6.5 million of secured convertible debt and $1.3 million of accrued interest thereon. Effective August 12, 2013 all the holders notes convertible at $1.00 agreed to convert their notes and interest to equity at a conversion price of $0.25 per share. Consequently, following these conversions, the principal amount of the notes outstanding is $160,000. We will need additional funding and to further restructure our debt to complete our clinical trial at Walter Reed and to continue our operations, plus substantial additional funding before we can significantly increase the demand for our PEER Online services. We will have to repay the $160,000 of our remaining two notes outstanding plus interest starting October 1, 2013 unless the note holders convert to common stock. Since January 18, 2013, note holders have converted approximately $3.1 million of notes including interest, to common stock and we have raised a further approximately $1.6 million as part of our private placement offerings of common stock at $0.25 per share.

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 study. The project title of the clinical study is "Use of PEER Interactive to inform the prescription of psychotropic medications to patients with behavioral disorders."

During the clinical study at Walter Reed and Fort Belvoir Community Hospital ("Fort Belvoir"), military and civilian physicians will treat 2,000 volunteer study patients with a 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 study support in all locations.

The clinical study is a prospective, randomized, multi-site, double blind study of the utility of PEER Interactive in improving medication outcomes in mental health. Patients are now being enrolled and tracked in the study at Walter Reed and Fort Belvoir and enrollment will continue throughout the year and into 2014. We anticipate analysis of the interim data during the first calendar quarter of 2014. The military is paying $540 per PEER Report generated for the study. We have assigned EEG equipment at both Walter Reed and Fort Belvoir locations. Col (Ret) Stewart Navarre, who is our Vice President of Government Accounts, has relocated to Bethesda, MD, to monitor the clinical study. Through the Henry M. Jackson Foundation we have engaged three clinical research coordinators and two EEG technologists to work on the study. As of July 31, 2013, we have a Lead Principal Investigator and two site-specific Principal Investigators working on the study, along with 39 sub-investigators who we have recruited with the help of the Principal Investigators. We have recently commenced billing the Military for our PEER reports.

In light of our efforts with the Military, we are also encouraged to see that the Senate Appropriations Committee has proposed allocating monies specifically for medical research into the psychological health of military families, the impact and treatment of traumatic brain injury and the prevention of suicide. This funding is detailed in the Senate's proposed Department of Defense Appropriations Act for 2014, and is part of a major initiative specifically focusing on the support of troops, veterans and their families.

2013 Annual Shareholders' Meeting

On May 23, 2013, the Company held its 2013 annual meeting of stockholders (the "2013 Annual Meeting"), at which the holders of the Company's common stock voted to elect each of the following directors to serve until the next annual meeting and until his successor is elected and qualified: Thomas Tierney, John Pappajohn, Walter Schindler, Zachary McAdoo, Richard Turner, Andrew Sassine and Robert Follman.

At the 2013 Annual Meeting the shareholders also approved the following proposals:

- To amend the Company's Amended and Restated Certificate of Incorporation, as amended (the "Charter") in order to increase the number of shares of common stock, par value $0.001 per share, authorized for issuance under the Charter from 100,000,000 to 150,000,000
- To amend the Company's Charter in order to create one or more new series of preferred stock, par value $0.001 per share, and authorize 15,000,000 shares of such preferred stock for issuance
- To adopt the Company's 2012 Omnibus Incentive Compensation Plan, as amended, to award grants of up to an aggregate of 15,000,000 shares of common stock
- To consider and provide an advisory (non-binding) vote to approve the compensation of the Company's named executive officers as described in the proxy statement (the "Say-on-Pay Vote") and to consider the frequency of holding the Say-on-Pay Vote (with shareholders approving a three year cycle).
- To ratify the selection by the Audit Committee of the Company's Board of Directors of Cacciamatta Accountancy Corporation as the Company's independent registered accounting firm for the fiscal year ending September 30, 2013.

The Company's Charter was amended for the first two of these items effective May 31, 2013.

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 $1,115,000 was purchased by current members of our Board of Directors or their affiliate companies 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 June 30, 2013, holders of convertible notes in the aggregate principal amount of $3,088,100, and $288,000 of interest thereon, have converted their notes into 41,873,745 shares of common stock. Of these conversions, October 2012 Notes in the aggregate principal amount of $1,838,100 together with interest of $68,100 converted into 40,403,929 shares of common stock at a conversion price of $0.04718. Other note conversions were of October 2010 Notes and January 2011 Notes in the aggregate principal amount of $1,250,000 together with interest of $219,800, which converted into 1,469,816 shares of common stock at a conversion price of $1.00. These conversions included the following affiliates:

- Mr. John Pappajohn, a Director of the Company converted a $500,000 note, plus interest thereon for 10,838,809 shares of common stock;
- Mr. Walter Schindler, a Director of the Company converted 11 notes on behalf of the various SAIL entities with an aggregate principal amount of $1,440,000, plus interest thereon for 5,631,699 shares of common stock;
- The Tierney Family Trust of which Mr. Thomas Tierney, the Chairman of our Board is a trustee, converted two notes with an aggregate principal amount of $200,000, plus interest thereon for 4,403,349 shares of common stock;
- Mr. Andy Sassine, a Director of the Company converted a $25,000, plus interest thereon for 550,021 shares of common stock.
- The Trust of Robert J. Follman and Carole A. Follman, dated August 14, 1979 ("Follman Trust") of which Robert Follman, a Director of the Company, is a trustee converted a note with an aggregate principal amount of $200,000, plus interest thereon for 4,491,310 shares of common stock;
- Mr. George Carpenter, our Chief Executive Officer, converted a $50,000, plus interest thereon for 1,091,299 shares of common stock.

On August 12, 2013, all of the holders of $1.00 convertible notes ("$1 Note(s)") (see Note 4 above) converted $1 Notes in the aggregate principal amount of $6,363,900, plus $1,359,400 in accrued interest thereon, into shares of common stock at the price of $0.25 per share. The conversion followed an amendment of the Notes to permit a temporary reduction in the conversion price from $1.00 per share to $0.25 per share. This reduction in the conversion price was recommended and approved by a committee of the Board of Directors composed entirely of disinterested directors. All $1.00 Note holders consented to the amendment and converted their Notes and interest thereon at a conversion price of $0.25 per share of common stock with the resultant issuance of 30,893,419 shares. The $1.00 Note holders included four affiliates of the Company:

- Mr. John Pappajohn, a Director of the Company converted six notes with an aggregate principal amount of $1,511,700, plus $317,900 of interest thereon, into 7,318,228 shares of common stock;
- Mr. Andy Sassine, a Director of the Company, converted two notes with an aggregate principal amount of $700,000, plus $174,600 of interest thereon, into 3,498,200 shares of common stock;
- Mr. Zach McAdoo, a Director of the Company, converted three notes held by the Zanett Opportunity Fund, Ltd., of which he is the President, with an aggregate principal amount of $380,000, plus $57,200 of interest thereon, into 1,748,720 shares of common stock;
- Mr. Paul Buck, the CFO of the Company, converted one note with a principal amount of $75,000, plus $14,900 of interest thereon, into 359,450 shares of common stock.

As of August 12, 2013, all of our convertible debt has been converted to equity except for two October 2012 Notes with an aggregate balance of $160,000 and interest thereon of $11,680.

From February 22, 2012 through August 12, 2013, we have raised gross proceeds of $1,572,000 from 27 accredited investors through the private placement of 6,290,000 shares of common stock at a price of $0.25 per share pursuant to a subscription agreement. These investors included our Chairman, Mr. Tierney, who purchased 800,000 shares for $200,000, Mr. Buck, our Chief Financial Officer, who purchased 50,000 shares for $12,500; Extuple Limited Partners, a greater than 5% shareholder which is managed by Philip Deck, which purchased 1,200,000 shares for $300,000; Mark and Jill Oman, who are greater than 5% shareholders, and an entity under their control purchased 1,000,000 shares for $250,000.

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 took office as directors on February 25, 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. Mr. Tierney was subsequently appointed Chairman of the Board.

Pursuant to the Governance Agreements, the Company experienced a change in a majority of our Board of Directors, effective February 25, 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 Company agreed to nominate for election, at each meeting of our stockholders at which directors are nominated and elected, 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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from those estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 2 to our consolidated financial statements. 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. The fair value of the stock option grants was determined for each of the grants as follows:

Stock Option Grant on December 10, 2012:

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 that was 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.

Stock Option Grant on January 14, 2013:

Based on the volume of shares traded on the open market, during the period October 1, 2012 through to January 14, 2013, the date of the option grant, management judged that the Company's stock was not actively traded as only $36,700 worth of stock was traded on 21 of 50 trading days during this period at prices ranging from $0.49 to $2.50. There had been a recent transaction which closed on November 30, 2012 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 that was 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 January 14, 2013.

Stock Option Grant on March 26, 2013:

Based on the volume of shares traded on the open market, during the period January 1, 2013 through to March 26, 2013, the date of the option grant, management judged that the Company's stock was not actively traded as only $283,400 worth of stock was traded on 22 of 58 trading days during this period at prices ranging from $0.46 to $0.83. There was a contemporaneous transaction whereby shares corresponding to $695,000 of a $2.5 million private placement of common stock purchased at a price of $0.25 per share by accredited third party investors. Given the low volume of stock that was traded, compared to the volume of the private placement of common stock, management's judgment was that the pricing of the private placement of common stock at $0.25 per share represented a better determinant of fair value of the Company's common stock and the options granted on March 26, 2013.

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 June 30, 2013 and 2012

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.

	Three Months Ended June 30,	
	2013	**2012**
Revenues	100%	100%
Cost of revenues	150	108
Gross profit	(50)	(8)
Research	205	202
Product Development	1,455	613
Sales and marketing	322	680
General and administrative expenses	2,522	2,013
Operating loss	(4,554)	(3,516)
Other income (expense), net	(590)	14,847
Net income (expense) before discontinued operations	(5,144)%	11,331%
Loss from Discontinued Operations	(7)	(309)
Net income (loss)	(5,151)%	11,022%

After a significant slowdown in operations during the period of October through December 2012 due to the severe lack of cash resources, the Company's operations have increased slightly with the increase in publicity and general awareness of the PEER technology. During the quarter ended June 30, 2013, the Company has not spent any funds on marketing to psychiatrists or consumers, as its limited resources remain focused on the Walter Reed and Fort Belvoir clinical trial. However, we have experienced increased interest from doctors, outside of the clinical trial, who are new to using the PEER report. We can offer no assurances that this increased level of interest will continue. The Company needs to raise additional funds to support the clinical trial.

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

Revenues

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

	Three Months Ended June 30,		
	2013	**2012**	**Percent Change**
Neurometric Service Revenues	$ 25,900	$ 32,800	(21)%

With respect to our Neurometric Services business, the number of non-study related third party paid PEER Reports delivered decreased from 83 for the three months ended June 30, 2012, to 65 for the three months ended June 30, 2013. The decrease in 18 tests during the 2013 period is due to the focus of all resources on our clinical study at Walter Reed and Fort Belvoir. The average revenue per report stayed constant at approximately $399 per test for the periods ended June 30, 2013 and 2012 respectively. As our Clinical Services operation had been discontinued no PEER Reports were ordered during the 2013 period, however 13 reports had been ordered during the 2012 period. The total number of free PEER Reports processed was 16 and 7 for the periods ended June 30, 2013 and 2012 respectively. These free PEER Reports are used for training, database-enhancement and compassionate-use purposes.

Cost of Revenues

	Three Months Ended June 30,		
	2013	2012	Percent Change
Cost of Neurometric Services Revenues	$ 38,800	$ 35,500	9%

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

	Three Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 27,000	$ 26,800	$ 200
Consulting fees	10,800	7,800	3,000
Other miscellaneous costs	1,000	900	100
Total Costs of Revenues	$ 38,800	$ 35,500	$ 3,300

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 once we improve our operating efficiency and increase the automation of certain processes.

(1) Salary and benefit expenses for the 2013 and 2012 periods remained substantially the same; however, from January through April 2013 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, from May 2013 forward 100% of salaries are being paid to staff.

(2) Consulting fees increased for the 2013 quarter, due to additional resources being used to process study related EEG's to ensure a more rapid generation of the PEER Reports.

(3) Other miscellaneous costs remained substantially the same for the 2013 quarter.

Research

	Three Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services Research	$ 53,100	$ 66,300	(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:

	Three Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 48,800	57,600	$ (8,800)
Consulting fees	-	3,000	(3,000)
Other miscellaneous costs	4,300	5,700	(1,400)
Total Research	$ 53,100	$ 66,300	$ (13,200)

Comparing the three months ended June 30, 2013 with the corresponding period in 2012:

(1) Salary and benefit costs decreased for the 2013 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 decreased over the prior year quarter as there was no need for consulting services.

(3) Other miscellaneous costs were reduced as travel related expenses were curtailed for the 2013 period.

Product Development

	Three Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services Product Development	$ 376,800	$ 200,900	88%

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 are detailed in the table below. We are aggregating most of our clinical trial costs within this cost center.

	Three Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 129,300	$ 63,500	$ 65,800
Consulting fees	190,700	92,700	98,000
System development costs	10,600	42,100	(31,500)
Advertising and marketing costs	2,400	-	2,400
Conference & travel	31,200	-	31,200
Other miscellaneous costs	12,600	2,600	10,000
Total Product Development	$ 376,800	$ 200,900	$ 175,900

Comparing the three months ended June 30, 2013 with the corresponding period in 2012:

(1) Salaries and benefits increased for the 2013 period due to (a) an increase in stock-based compensation and health insurance costs and (b) a realignment of staff from Sales and Marketing to Product Development: the role of our VP of Government Accounts, Col (Ret) Stewart Navarre has changed from Sales and Marketing to Product Development in connection with the Walter Reed/Fort Belvoir clinical trial effective January 2013. Salaries for the 2013 period are being paid at 67% of the normal salary with 33% being accrued, from May 2013 forward 100% of salaries are being paid to staff.

(2) Consulting fees were increased for the 2013 period as the Company is using Consulting resources in conducting the Walter Reed clinical trial.

(3) System development and maintenance costs decreased for the 2013 period as there were no new major system initiatives undertaken during this period. However, expenditures were focused on clinical study software to be used in the Walter Reed clinical trial. In the 2012 period we had effected 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) Conference and travel costs increased for the 2013 period as we initiated our Walter Reed clinical study; our VP of Government Accounts has relocated to Maryland to manage the clinical trial.

(5) Advertising and marketing costs increased for the 2013 period as we recruited subjects for clinical study.

(6) Other miscellaneous costs increased substantially for costs related to setting-up and running the clinical study.

Sales and marketing

	Three Months Ended June 30,		
	2013	**2012**	**Percent Change**
Neurometric Services Sales and Marketing Expenses	$ 83,400	$ 223,200	(63)%

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.

	Three Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 57,200	$ 179,100	$ (121,900)
Consulting fees	20,300	30,900	(10,600)
Advertising and marketing costs	3,600	-	3,600
Conferences and travel costs	100	10,200	(10,100)
Other miscellaneous costs	2,200	3,000	(800)
Total Sales and marketing	$ 83,400	$ 223,200	$ (139,800)

Comparing the three months ended June 30, 2013 with the corresponding period in 2012:

(1) Salaries and benefits decreased for the 2013 quarter as our Executive Vice President of Marketing left the Company in September 30 2012; he continues to be a resource for the Company on a consulting basis. Secondly, as mentioned above, we realigned our staff from the Sales and Marketing cost center to the Product Development cost center due to a change in the roles from sales to project management of the Walter Reed clinical trial. These adjustments resulted in a decline of roughly $115,000 in this line item. Salaries for the 2013 period are being paid at 67% of the normal salary with 33% being accrued, from May 2013 forward 100% of salaries are being paid to staff.

(2) Consulting fees decreased slightly for the 2013 quarter as the Company cut back on all marketing consulting services due to limited cash resources available.

(3) Advertising and marketing expenses in the 2013 quarter increased as we conducted a test marketing campaign in the Washington, DC area in support of our study recruitment efforts.

(4) Conference and travel related expenditures were curtailed for the 2013 quarter compared to the 2012 period due to limited cash resources and the reductions in staff and consultants.

(5) Miscellaneous expenditures for the 2013 quarter decreased slightly from the prior year period as expenses were kept to a minimum due to limited cash resources available.

General and administrative

	Three Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services General and Administrative Expenses	$ 653,200	$ 660,300	(1)%

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.

	Three Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 372,900	$ 412,500	$ (39,600)
Legal fees	92,500	70,500	22,000
Other professional and consulting fees	47,300	65,900	(18,600)
Patent costs	16,600	19,800	(3,200)
Marketing and investor relations costs	14,300	4,900	9,400
Conference and travel costs	26,200	13,800	12,400
Dues and subscriptions fees	23,400	12,800	10,600
General admin and occupancy costs	60,000	60,100	(100)
Total General and administrative costs	$ 653,200	$ 660,300	$ (7,100)

With respect to our Neurometric Services business, in the three months ended June 30, 2013, compared to the same period in 2012 we had the following changes:

(1) Salaries and benefit expenses decreased for the 2013 period as part of the stock compensation accrual became fully vested. Salaries for the 2013 period were being paid at 67% of the normal salary with 33% being accrued, from May 2013 forward 100% of salaries are being paid to staff.

(2) Legal fees showed a net increase for the 2013 period; this was partly due to the mix of legal services used. The Brandt litigation costs increased by $45,600 for the 2013 period. Legal fees for our general and SEC matters remained about the same over the prior year period. Our Government lobbing expense has decreased by $24,400 for the 2013 period.

(3) Professional and consulting fees decreased by $8,400 due to the timing and mix of consulting and professional services used during the respective periods.

(4) Patent costs decreased slightly due to the timing of patent application and maintenance costs which had been deferred for as long as possible due to the limited cash resources available; however these costs will need to be paid in the near future to ensure that no patents or applications would be lost due to non-payment of fees.

(5) Corporate marketing and investor relations expenses increased for the 2013 period due to a marketing effort to introduce the PEER technology to the Australian Military.

(6) Conference and travel costs increased in the 2013 period as the Walter Reed clinical study ramped-up. Furthermore, additional travel expenses were incurred in support of our fundraising efforts.

(7) Dues and subscriptions had increased in the 2013 period due to cost associated with the annual shareholders meeting.

(8) General administrative and occupancy cost remained the same over both periods.

Other income (expenses)

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

	Three Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services expense, net	$ (152,800)	$ 4,870,900	*

(not meaningful)*

For the three months ended June 30, 2013 and 2012 net other non-operating income and expenses for Neurometric Services were as follows:

- For the 2013 period we incurred non-cash interest charges totaling $183,300 of which $158,400 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $23,800 of the note conversion benefit discount on the notes issued in August and September of 2012; only $1,300 was for actual net interest paid in cash for the period. For the 2012 period non-cash interest charges totaled $767,400, of which $175,700 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $589,200 of warrant discount amortization on derivative liability for warrants and note conversions; only $2,500 was for actual net interest paid in cash for the period.

- For the 2013 period we amended our accounting treatment for cash finance fees to placement agents for the placement of common stock by offsetting the charge against equity. This change resulted in a credit balance of $30,500 for this period. For the 2012 period we had no finance fee expenses.

- For the three months ended June 30, 2013, we incurred no offering costs, whereas for the same period in 2012 we expensed deferred offering costs of $781,400 related to our Canadian and United States efforts to raise funds in the public markets.

- Under ASC 815, the fair value of all derivative instruments are required to be measured periodically and the change in fair value of these non-hedging derivative instruments are to be recognized in current earnings. As all derivative liabilities associated with revaluation of our promissory note conversion feature and associated warrants had been eliminated as of the end of November 2012, we incurred no gain or charge for the three months ended June 30, 2013. Conversely, for the same period in 2012 we had a non-cash gain of $6,419,700 on the valuation of the derivative liabilities. Prior to the elimination of derivative liabilities, the Company experienced substantial changes in the valuation of these liabilities from quarter to quarter as a result of the volatility in its stock price. The derivative liabilities were eliminated when all ratchet features were removed from the convertible notes and all the note-related warrants were forfeited pursuant to the Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement which became effective at the end of November, 2012, with the approval of the majority of each tranche of noteholders.

Net Loss from Continuing Operations

	Three months ended June 30,		Percent Change
	2013	2012	
Neurometric Services net loss	$ (1,332,200)	$ 3,716,400	*

(not meaningful)*

The net loss for our Neurometric Services business of approximately $1.3 million for the three months ended June 30, 2013 compared to the $3.7 million gain in the same period in the prior year is primarily due to the net reduction of approximately $5.2 million in predominantly non-cash gains as described in our Other Income (Expense) category above. The remaining reduction of approximately $0.6 million is due to reduced operating expenditures largely driven by the Company's limited cash resources.

Loss from Discontinued operations:

	Three months ended June 30,		Percent Change
	2013	2012	
Clinical Services net loss	(1,800)	(101,200)	(98)%

For our Clinical Services business, the net loss for the three month period ended June 30, 2013 of $1,800 is a decrease of $99,400 over the same three months of the prior year when it was fully operational. As there were no ongoing operations during the 2013 period, the loss incurred was largely for expenses related to the storage of records.

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.

Results of Operations for the Nine Months Ended June 30, 2013 and 2012

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.

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

	Nine Months Ended June 30,	
	2013	**2012**
Revenues	100%	100%
Cost of revenues	127	123
Gross profit	(27)	(23)
Research	188	226
Product Development	847	529
Sales and marketing	306	904
General and administrative expenses	2,237	2,508
Operating loss	(3,605)	(4,190)
Other income (expense), net	(985)	(3,789)
Net income (expense) before discontinued operations	(4,590)%	(7,979)%
Loss from Discontinued Operations	(18)	(366)
Net income (loss)	(4,608)%	(8,345)%

Revenues

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

	Nine Months Ended June 30,		
	2013	**2012**	**Percent Change**
Neurometric Service Revenues	$ 83,300	$ 90,000	(07)%

With respect to our Neurometric Services business, the number of third party paid PEER Reports delivered decreased from 229 for the nine months ended June 30, 2012, to 210 for the nine months ended June 30, 2013. The decrease in 19 tests during the 2013 period is due to the focus of all resources on our clinical study at Walter Reed and Fort Belvoir. The average revenue per report stayed constant at approximately $398 per test. Our discontinued Clinical Services operation ordered no PEER Reports during the 2013 period, however had ordered 13 reports during the same period in 2012. The total numbers of free PEER Reports processed were 65 and 113 for the periods ended June 30, 2013 and 2012 respectively. These free PEER Reports are used for training, database-enhancement and compassionate-use purposes.

Cost of Revenues

	Nine Months Ended June 30,		
	2013	**2012**	**Percent Change**
Cost of Neurometric Services Revenues	$ 105,800	$ 110,700	(4)%

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

	Nine Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 81,500	$ 79,800	$ 1,700
Consulting fees	23,200	28,700	(5,500)
Other miscellaneous costs	1,100	2,200	(1,100)
Total Costs of Revenues	$ 105,800	$ 110,700	$ (4,900)

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 2013 and 2012 periods remained substantially the same; however, for most of the 2013 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; effective May 2013, 100% of salaries are being paid to staff.
(2) Consulting fees declined for the 2013 period, partly due to the reduced number of test and the lack of funds.
(3) Other miscellaneous costs declined for the 2013 period due to the lack of funds.

Research

	Nine Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services Research	$ 156,400	$ 203,400	(23)%

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:

	Nine Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 152,400	175,000	$ (22,600)
Consulting fees	(3,000)	9,000	(12,000)
Other miscellaneous costs	7,000	19,400	(12,400)
Total Research	$ 156,400	$ 203,400	$ (47,000)

Comparing the nine months ended June 30, 2013 with the corresponding period in 2012:

(1) Salary and benefit costs decreased for the 2013 period 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 decreased due to a reduction of consulting services as we recaptured an anticipated accrued costs which did not materialize.
(3) Other miscellaneous costs were reduced as travel related expenses were curtailed for the 2013 period.

Product Development

	Nine Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services Product Development	$ 705,400	$ 476,200	48%

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 are detailed in the table below. We are aggregating most of our clinical trial costs within this cost center.

	Nine Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 314,100	$ 179,800	$ 134,300
Consulting fees	236,200	134,100	102,100
System development costs	57,400	148,000	(90,600)
Conference & travel	68,900	1,100	67,800
Other miscellaneous costs	28,800	13,200	15,600
Total Product Development	$ 705,400	$ 476,200	$ 229,200

Comparing the nine months ended June 30, 2013 with the corresponding period in 2012:

(1) Salaries and benefits increased for the 2013 period due to (a) an increase in stock-based compensation and health insurance costs and (b) a realignment of staff from sales and marketing to product development: the role of our VP of Government Accounts, Col (Ret) Stewart Navarre has changed from Sales and Marketing to Product Development in connection with the Walter Reed/Fort Belvoir clinical trial effective January 2013. Salaries for the 2013 period were being paid at 67% of the normal salary with 33% being accrued; effective May 2013 onwards, 100% of salaries are being paid to staff.

(2) Consulting fees increased for the 2013 period in connection with the Walter Reed/Fort Belvoir clinical trial starting January 2013 with costs of $104,400; the clinical trial was not operational in the prior period.

(3) System development and maintenance costs decreased for the 2013 period as there were no new major system initiatives undertaken during this period. However, expenditures were focused on clinical study software to be used in the Walter Reed clinical trial. In the 2012 period we had effected 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 increased in 2013 due to costs associated with setting up operations for Walter Reed/For Belvoir clinical trial.

Sales and marketing

	Nine Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services Sales and Marketing Expenses	$ 254,900	$ 813,600	(69)%

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.

	Nine Months Ended June 30,		
Key Expense Categories	**2013**	**2012**	**Change**
Salaries and benefit costs	$ 210,000	$ 542,000	$ (332,000)
Advertising and marketing costs	3,600	93,100	(89,500)
Consulting fees	25,600	116,000	(90,400)
Conferences and travel costs	9,800	49,500	(39,700)
Other miscellaneous costs	5,900	13,000	(7,100)
Total Sales and marketing	$ 254,900	$ 813,600	$ (558,700)

Comparing the nine months ended June 30, 2013, with the same period in 2012:

(1) Salaries and benefits decreased for the 2013 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. Thirdly, we realigned our VP of Operations from sales and marketing to product development to project manage the Walter Reed clinical trial. These adjustments resulted in a decline of roughly $210,000 in this line item. Salaries for the 2013 period were being paid at 67% of the normal salary with 33% being accrued; effective May 2013 onward, 100% of salaries are being paid to staff.

(2) Advertising and marketing expenses in the 2013 period were curtailed due to the limited available cash resources. We undertook a test marketing campaign in the Washington, DC area in support of recruitment efforts for the clinical study. In the 2012 period, we spent $65,000 on a test marketing campaign targeting Denver, Boston, and Southern California and we also incurred $26,000 as part of a marketing/economic analysis undertaken with Medco Health Solutions.

(3) Consulting fees decreased for the 2013 period as the Company cut back on all marketing consulting services due to limited cash resources available.

(4) Conference and travel related expenditures were curtailed for the 2013 period compared to the 2012 period, due to reductions and realignment of staff.

(5) Miscellaneous expenditures for the 2013 period decreased from the prior period as expenses were kept to a minimum due to the limited cash resources available.

General and administrative

	Nine Months Ended June 30,		
	2013	2012	Percent Change
Neurometric Services General and Administrative Expenses	$ 1,863,700	$ 2,257,300	(17)%

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	Nine Months Ended June 30, 2013	2012	Change
Salaries and benefit costs	$ 1,020,700	$ 1,216,100	$ (195,400)
Legal fees	354,500	405,500	(51,000)
Other professional and consulting fees	144,100	244,700	(100,600)
Patent costs	52,100	92,400	(40,300)
Marketing and investor relations costs	17,300	15,600	1,700
Conference and travel costs	62,300	63,800	(1,500)
Dues and subscriptions fees	50,600	44,500	6,100
General admin and occupancy costs	162,100	174,700	(12,600)
Total General and administrative costs	$ 1,863,700	$ 2,257,300	$ (393,600)

With respect to our Neurometric Services business, in the nine months ended June 30, 2013, compared to the same period in 2012 we had the following changes:

(1) Salaries and benefit expenses decreased for the 2013 period as $133,000 of previously accrued salaries and bonuses were forfeited by the CEO and CFO in exchange for common stock. Salaries for the 2013 period were being paid at 67% of the normal salary with 33% being accrued; effective May 2013 onward, 100% of salaries are being paid to staff.

(2) Legal fees showed a net decrease for the 2013 period; this was partly due to the mix of legal services used and the timing of those services. The Brandt litigation expenses remained consistent over both periods. We also renegotiated our accrued fees with our lobbying firm which enabled us to recapture $12,000 which was expensed in the 2012 period during which we had lobbing expenses of $69,300. Other legal fees were also reduced as the Company minimized all expenditure during this period 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 2013 period was primarily due to the fees of our clinical trial/FDA consulting firm being allocated to general and administrative expenses in the 2012 period; these were subsequently booked to our Product Development cost center in the 2013 period; additionally, in 2012 period our financial consultants were assisting the Company with its public offering; those similar expenses did not recur in the 2013 period.

(4) Patent costs decreased largely due to the timing and volume of patent applications and maintenance costs. Where possible, costs were deferred due to the limited available cash resources; no patents or applications lapsed due to delayed payment of maintenance or application fees.

(5) Corporate marketing and investor relations remained the same for the both periods.

(6) Conference and travel costs remained the same over both periods.

(7) Dues and subscriptions fees were slight increase for the 2013 period.

(8) General administrative and occupancy costs declined for the 2013 period due to reductions in insurance costs and general costs.

Other expense

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

	Nine Months Ended June 30, 2013	2012	Percent Change
Neurometric Services expense, net	$ (819,600)	$ (3,407,600)	(76)%

For the nine months ended June 30, 2013 and 2012 net other non-operating expenses for Neurometric Services was as follows:

- For the 2013 period we incurred non-cash interest charges totaling $1,200,000 of which $550,200 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $661,000 of the note conversion benefit discount on the notes issued in August and September of 2012; only $2,600 was expensed for actual net interest paid in cash for the period. For the 2012 period non-cash interest charges totaled $3,385,000, of which $481,000 was accrued interest on our promissory notes at 9% per annum; the remaining balance was comprised of $2,374,200 of warrant discount amortization on derivative liability for warrants and note conversions; only $6,900 was expensed for actual net interest paid in cash for the period.

- For the 2013 period we incurred finance fees totaling $62,200 of which $31,700 was paid in cash, and $30,400 was the fair value of the warrants issued to the placement agents, in association with our private placement of convertible notes. For the 2012 period, finance fees totaled $151,500 in connection with our private placement of convertible notes. Of these finance fees, $94,700 were paid in cash and $56,800 was the fair value of warrants that were issued to the placement agents.

- For the 2013 period, we incurred $2,500 in offering costs, whereas for the same period in 2012 we incurred offering costs of $789,100 in expenses relating to our Canadian and United States efforts to raise funds in the public market.

- 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 nine months ended June 30, 2013 resulted in a non-cash loss of $97,600. For the same period in 2012 we had a non-cash gain of $918,000 on the valuation derivative liabilities. The Company has 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 2013 period we benefited from a non-cash gain of $556,300 as a result of the accounting for the extinguishment of debt. No similar transaction occurred in the 2012 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. Additionally, for the 2013 period we benefited from a non-cash gain of $90,000 as a result of the forgiveness of debt by Dr. Harbin for consulting services due to him.

Net Loss from Continuing Operations

	Nine Months Ended June 30,		Percent Change
	2013	2012	
Neurometric Services net loss	$ (3,823,300)	$ (7,180,800)	(47)%

The net loss for our Neurometric Services business of approximately $3.8 million for the period ended June 30, 2013 compared to the $7.2 million loss in the same period in the prior year is primarily due to the reduction of approximately $2.5 million in non-cash charges as described in our Other Expense category above. The remaining reduction of approximately $0.8 million is due to a reduction in operating expenses which were scaled back largely due to limited cash resources during October and November of 2012.

Loss from Discontinued operations:

	Nine Months Ended June 30,		Percent Change
	2013	2012	
Clinical Services net loss	(15,200)	(329,500)	(95)%

For our Clinical Services business, the net loss for the nine month period ending June 30, 2013 of $15,200 is a decrease of $314,300 compared to the same period of the prior year. As there were no ongoing operations during the 2013 period, the loss incurred was largely due to the write down of assets, namely receivables, which were unlikely to be collected, and to the storage fees for medical records.

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 June 30, 2013, we had an accumulated deficit of approximately $49.5 million, which is similar to our accumulated deficit at September 30, 2012, at approximately $45.6 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 June 30, 2013, we had approximately $671,600 in cash and cash equivalents and a working capital deficiency of approximately $11.1 million compared to approximately $717,200 in cash and cash equivalents and a working capital deficiency of approximately $13.1 million as at September 30, 2012. The working capital deficiency as of June 30, 2013 includes the $7.8 million of convertible promissory notes and interest outstanding of which approximately $7.5 million are secured and $.3 million is unsecured. The unsecured notes are largely the result of note conversions by the majority holders of the senior October 2012 Notes, which pursuant to the Second Amended and Restated Security Agreement results in the termination of the security interest of the remaining minority of the October 2012 Notes.

As of August 12, 2013, all the holders of $1.00 convertible notes ("$1 Note(s)") converted $6.4 million worth of notes, plus $1.4 million of accrued interest thereon into shares of common stock at the price of $0.25 per share. The conversion followed an amendment of the $1.00 Notes to permit a temporary reduction in the conversion price from $1.00 per share to $0.25 per share, which was recommended and approved by a committee of the Board of Directors composed entirely of disinterested directors. This conversion of notes to equity reduced our working capital deficit by $7.8 million.

Operating Capital and Capital Expenditure Requirements

Our continued operating losses and limited capital raise substantial doubt about our ability to continue as a going concern. We have limited ability to meet our current obligations as they become due and we are in arrears on paying most of our creditors. Because of our substantial indebtedness, we are insolvent and need to raise additional funds and to restructure our debt to continue our operations.

We need additional funds and to restructure our debt 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. 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.

We expect to continue to incur operating losses in the future. Although since September 30, 2012 we have raised gross cash proceeds of $1.4 million through the sale of senior secured convertible promissory notes plus a further $1.5 million from the sale of restricted stock at $0.25 per share, 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 may have to repay the $160,000 of notes which remain outstanding, plus the interest thereon, starting on October 1, 2013, unless we can raise additional funds, restructure the convertible debt or persuade the noteholders to convert to equity. 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 June, 30, 2013, holders of convertible notes in the aggregate principal of amount of $3.1 million and $0.29 million of interest thereon have converted their notes into approximately 41.9 million shares of common stock. Of these conversions approximately 27.0 million shares were issued upon conversion to directors and an officer. Subsequently on August 12, 2013, all the holders of $1.00 convertible notes converted $6.4 million worth of notes, plus $1.4 million of accrued interest thereon into 30.9 million shares of common stock at the price of $0.25 per share. The conversion followed an amendment of the $1.00 Notes to permit a temporary reduction in the conversion price from $1.00 per share to $0.25 per share, which was recommended and approved by a committee of the Board of Directors composed entirely of disinterested directors. This conversion of notes to equity reduced our working capital deficit by $7.8 million.

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.

Sources of Liquidity

Since our inception, substantially all of our operations have been financed from equity and debt financings. Through June 30, 2013, we had received proceeds of approximately $15.3 million from the sale of stock, $17.1 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 the October 2012 Notes, an aggregate of $1.2 million was purchased by current members of our Board of Directors, or their affiliate companies or Corporate Officers. *See Note 4 of the Notes to the Unaudited Condensed Consolidated Financial Statements.*

From February 22, 2013 through July 22, 2013 we raised approximately $1.5 million from the issuance of common stock at $0.25 per share to accredited investors pursuant to subscription agreements. Of such amount an aggregate of $212,500 was purchased by a member of the Chairman of the Board of Directors and an officer of the Company.

Cash Flows

Net amount of cash used in operating activities for the nine months ended June 30, 2013 and 2012 is almost identical at $2.1 million and $2.0 million respectively. However, the operations during the two periods were substantially different in that during the 2013 period the Company was solely focused on the Walter Reed/Fort Belvoir clinical study, while during the 2012 period, the Company's focus was on doing a registered offering, addressing FDA licensure issues and trying to support the Clinical Services operation.

Net cash provided by investing activities was $1,400 for the nine months ended June 30, 2013 as compared to use of $25,500 for the same period in 2012. Our 2013 activity reflected the disposal of computer equipment, whereas during the 2012 period we acquired intellectual property pertaining to a Transcranial Magnetic Stimulation ("TMS") biomarker for $21,200 from Brain Clinics and we purchased $4,300 of furniture and equipment.

Net cash proceeds from financing activities for the nine months ended June 30, 2013 were primarily net proceeds of $2.7 million. Of this amount, a net $1.4 million was raised through the sale of senior convertible promissory October 2012 Notes and a net $1.4 million was raised through the private placement of common stock with accredited investors at $0.25 per share. For the same period in 2012, net cash proceeds from financing activities were approximately $2.2 million from the sale of our October 2011 Notes.

Net cash used in discontinued operations for the nine months ended June 30, 2013 was $12,000 which was primarily for the NTC accounts payable and the cost of storage of medical records. For the same period ended June 30, 2012, net cash uesd in discontinued operations was $258,200.

Contractual Obligations and Commercial Commitments

As of June 30, 2013, our combined lease obligations are $29,000. On January 29, 2013, we signed a 12 month extension to our lease at our Aliso Viejo office. The lease period started 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 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, there are no residual warrant or conversion option liabilities as of June 30, 2013.

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 or 15d-15, as of June 30, 2013, 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 June 30, 2013 for the reasons described below. With respect to our audit committee, after the resignation of Messrs. Kallins and DeWald, new directors Messrs. Sassine and Turner have joined Mr. McAdoo on our audit committee. Mr. McAdoo is the Chair of the committee.

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 and nine months ended June 30, 2013, or statement of financial position as of June 30, 2013.

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 June 30, 2013 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

From February 22, 2013 through July 22, 2013, we have raised gross proceeds of $1,572,500 from 26 accredited investors through the private placement of 6,290,000 shares of common stock at a price of $0.25 per share pursuant to subscription agreements. These investors included our Chairman, Mr. Tierney, who purchased 800,000 shares for $200,000; Mr. Buck, our Chief Financial Officer, who purchased 50,000 shares for $12,500; Extuple Limited Partners, a greater than 5% shareholder which is managed by Philip Deck, which purchased 1,200,000 shares for $300,000 and Mark and Jill Oman, greater than 5% shareholders, along with an entity controlled by them, purchased 1,000,000 shares for $250,000.

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
3.1.2	Certificate of Amendment, dated May 31, 2013, to Certificate of Incorporation of the Company.
10.78	Form of Subscription Agreement (common stock), made as of February 20, 2013, by and between the Company and the investor(s) signatory thereto.
10.79	Form of Subscription Agreement (common stock), made as of May 23, 2013, by and between the Company and the investor(s) signatory thereto.
10.80	Form of Omnibus Amendment to the October 2010 Notes, January 2011 Notes, October 2011 Notes and February 2012 Note, made as of August 12, 2013, by and among the Company and the other parties listed on the signature pages thereto.
10.81	2012 Omnibus Incentive Compensation Plan, as amended and approved by the Company's stockholders.
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CNS Response, Inc.

Date: August 14, 2013

/s/ George Carpenter

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

Date: August 14, 2013

/s/ Paul Buck

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

State of Delaware
Secretary of State
Division of Corporations
Delivered 02:23 PM 05/31/2013
FILED 02:04 PM 05/31/2013
SRV 130715187 - 2121065 FILE

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION OF CNS RESPONSE, INC.

CNS Response, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

FIRST: That at a meeting of the Board of Directors (the "Board") of CNS Response, Inc. (the "Corporation") on March 26, 2013, resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of the Corporation: (i) approving of an increase in the number of authorized shares which the Corporation is authorized to issue from 100,000,000 to 150,000,000 (the "Share Increase"), and (ii) authorizing 15,000,000 shares of a new class of preferred stock, par value $0.001 per share (the "Preferred Authorization"), and, declaring said amendments, as reflected in a single amendment (hereinafter the "Amendment"), to be advisable and calling for separate approvals of the stockholders of the Corporation for consideration thereof. The resolution setting forth the proposed Amendment is substantially as follows:

RESOLVED, that the Certificate of Incorporation of the Corporation be amended by amending and restating the Article IV thereof relating to the authorized shares of the Corporation, so that, as amended, said Article IV shall be and read in its entirety, as follows:

ARTICLE IV

CAPITAL STOCK

Section 4.A. The total number of shares of stock which the Corporation shall have authority to issue is One Hundred Sixty Five Million (165,000,000).

Section 4.B. Common Stock. The total number of shares of common stock which the Corporation shall have authority to issue is One Hundred Fifty Million (150,000,000) shares, with a par value of $0.001 per share. Stockholders shall not have preemptive rights or be entitled to cumulative voting in connection with the shares of the Corporation's common stock.

Section 4.C. Blank-Check Preferred Stock. The total number of shares of undesignated preferred stock which the Corporation shall have the authority to issue is Fifteen Million (15,000,000) shares, with a par value of $0.001 per share. The Board of Directors is hereby expressly authorized to provide, out of the unissued shares of preferred stock, for one or more series of preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers, if any, of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. The powers, preferences and relative, participating, optional and other special rights of each series of preferred stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, an annual meeting of the stockholders of the Corporation was duly called and held on May 23, 2013 upon notice in accordance with section 222 of the General Corporation Law of the State of Delaware, pursuant to which a majority of each class of stockholders voted in favor of the Amendment.

THIRD: That said Amendment was duly adopted on May 23, 2013 in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said Corporation shall not be reduced under or by reason of said Amendment.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment of the Certificate of Incorporation of CNS Response, Inc. as of May 31, 2013.

CNS RESPONSE, INC.

By: _____
Name: George C. Carpenter IV
Title: Chief Executive Officer

SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (this "**Agreement**") is made as of February 20, 2013 by and between CNS Response, Inc., a Delaware corporation (the "**Company**"), and the investor listed on Schedule A hereto (each, an "**Investor**" and together, the "**Investors**").

AGREEMENT

In consideration for the mutual promises and covenants herein, the parties agree as follows:

WHEREAS, the Company is offering in a private placement up o $2.5 million of its common stock, par value $.0001 per share ("**Shares**" or "**Common Stock**") for $.25 per share in a private placement to accredited investors pursuant to a Confidential Offering Memorandum dated February 20, 2013; and

WHEREAS, the undersigned desires to subscribe for and purchase the number of Shares set forth onSchedule A hereto.

SECTION 1 – PURCHASE AND SALE OF SHARES

1.1 Purchase and Sale of Shares. The Company has authorized the issuance and sale, in accordance with the terms hereof, of shares of Common Stock, in the aggregate amount of up to $2,500,000 (the "**Shares Cap Amount**"). On the terms and subject to the conditions set forth in this Agreement, at the Closings (as defined below), the Company agrees to issue to each Investor, and the Investor agrees to purchase from the Company, in the amount set forth on Schedule A. The Company will sell Shares to more than one Investor, each of whom will enter into Subscription Agreement substantially identical to this one. The financing pursuant to which the Company is issuing the Shares is hereinafter referred to as the "**Financing**".

1.2 Closings.

(a) Initial Closing. The initial purchase and sale of the Shares shall take place at a closing (the "**Initial Closing**") which shall take place remotely via exchange of documents and signatures at 10:00 a.m. Eastern Time on the business day immediately following execution and delivery of this Agreement, or at such other place and time as may be agreed to among the Company and the Investors. At the Initial Closing, the Company shall deliver to each of the Investors purchasing Securities for cash at such closing a certificate or certification representing such number of Shares as is set forth opposite such Investor's name on Schedule A under the column entitled "Purchase Price (Initial Closing)" against receipt of a check subject to collection or a wire transfer in immediately available funds of the purchase price, to an account designated by the Company.

(b) Additional Closings. The Company shall have the right, on one or more occasions, to hold additional closings (each, an "**Additional Closing**", and collectively with the Initial Closing, the "**Closings**", and individually, a "**Closing**"), pursuant to which it shall have the right to issue and sell additional Shares to additional Investors or existing Investors (provided that no Additional Closings shall take place later than April 30, 2013). At each Additional Closing, the Company shall deliver to each Investor purchasing Shares at such closing a certificate or certification representing such number of Shares as is in set forth opposite such Investor's name on Schedule A under the column entitled "**Purchase Price**" against receipt of a check subject to collection or a wire transfer in immediately available funds of the purchase price, to an account designated by the Company. By receiving Shares at an Additional Closing, each Investor so receiving Shares thereby represents that its representations and warranties contained in Section 3 are true and correct as of the date of such Additional Closing. The aggregate principal amount of Shares that may be issued at Closings hereunder shall, in no event exceed the Share Cap Amount.

The obligation of each Investor to purchase and pay cash for the Shares to be delivered at a Closing is, unless waived by such Investor, subject to the condition that the Company's representations and warranties contained in Section 2 are true, complete and correct on and as of such Closing date. The obligation of the Company to sell and issue Shares to be delivered at a Closing is, unless waived by the Company, subject to the condition that the relevant Investor's representations and warranties contained in Section 3 are true, complete and correct on and as of the Closing Date.

SECTION 2 - REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to each Investor as follows:

2.1 Existence of Company. The Company is a duly organized Delaware corporation. The Company is validly existing in all jurisdictions where it conducts its business.

2.2 Authority to Execute. The execution, delivery and performance by the Company of this Agreement and the issuance of the Shares are within the Company's corporate powers, have been duly authorized by all necessary corporate action, do not and will not conflict with any provision of law or organizational document of the Company (including its Certificate of Incorporation or Bylaws) or of any agreement or contractual restrictions binding upon or affecting the Company or any of its property and need no further stockholder or creditor consent.

2.3 No Stockholder Approval Required. No approval of the Company's stockholders is required for (i) the entry by the Company into this Agreement, or (ii) the issuance of the Shares contemplated by this Agreement.

2.4 Valid Issuance. The Shares will be, validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under, applicable state and federal securities laws and liens or encumbrances created by or imposed by the Investor. Assuming the accuracy of the representations of the Investor in Section 3 of this Agreement, and the Shares will be issued in compliance with all applicable federal and state securities laws.

2.5 Binding Obligation. This Agreement is, a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

2.6 Litigation. Other than the litigation disclosed in the Company's most recent SEC Reports (as defined below), no litigation or governmental proceeding is pending or threatened against the Company which may have a materially adverse effect on the financial condition, operations or prospects of the Company, and to the knowledge of the Company, no basis therefore exists.

2.7 Intellectual Property. To the best of the Company's knowledge, the Company owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and as presently proposed to be conducted, without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products.

2.8 SEC Reports. The Company has filed all forms, reports, schedules, proxy statements, registration statements and other documents (including all exhibits thereto) required to be filed by it with the Securities and Exchange Commission (the "**SEC**") pursuant to the federal securities laws and the SEC rules and regulations thereunder, together with all certifications required pursuant to the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**") (as they have been amended since the time of their filing, including all exhibits thereto, the "**SEC Reports**"). Each of the SEC Reports complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "**Securities Act**") and the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the Sarbanes-Oxley Act and the rules and regulations of the SEC under all of the foregoing. None of the SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 3 - REPRESENTATIONS AND WARRANTIES OF THE INVESTORS

Each Investor represents and warrants to the Company as follows:

3.1 Authorization; Binding Obligations. The Investor has full power and authority to enter into this Agreement and this Agreement constitutes a valid and legally binding obligation of the Investor, enforceable against the Investor in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

3.2 Accredited Investor. The Investor is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act.

3.3 Investment for Own Account. The Shares are being acquired for his, her or its own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act.

3.4 Knowledge and Experience. The Investor has such knowledge and experience in financial and business matters that (s)he is capable of evaluating the merits and risks of an investment in the Shares 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, including a total loss of his/her investment.

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

3.6. Receipt of Information. The Investor has received and reviewed all the information concerning the Company, the Securities and the Shares, both written and oral, that the Investor desires. Without limiting the generality of the foregoing, the Investor has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Investor desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Investor has relied solely on his/her own knowledge and understanding of the Company and its business and prospects based upon the Investor's own due diligence investigations and the Company's filings with the SEC.

SECTION 4 - MISCELLANEOUS

4.1 No Waiver; Cumulative Remedies. No failure or delay on the part of any party to this Agreement in exercising any right or remedy under, or pursuant to, this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy or power preclude other or further exercise thereof, or the exercise of any other right, remedy or power. The remedies in this Agreement are cumulative and are not exclusive of any remedies provided by law.

4.2 Amendments and Waivers. Except as otherwise expressly set forth in this Agreement, any term of this Agreement may be amended (either retroactively or prospectively) with the written consent of the Company and the Investor. Any amendment effected in accordance with this Section 4.2 shall be binding upon each Investor, each future holder of Securities and the Company.

4.3 Notices, Etc. All notices, requests, consents and other communications hereunder to any party shall be deemed to be sufficient if contained in a written instrument delivered in person; sent by facsimile transmission; sent by electronic mail; duly sent by first class registered or certified mail, return receipt requested, postage prepaid; or duly sent by overnight delivery service (*e.g.*, Federal Express) addressed to such party (i) if to the Company, at the address, fax number or electronic mail address, as applicable, set forth on the signature page hereof or (ii) if to an Investor, at the address, fax number or electronic mail address, as applicable, set forth on Schedule A hereto, or at such other address, fax number or electronic mail address as may hereafter be designated in writing by the addressee to the sender. All such notices, advises and communications shall be deemed to have been received: (a) in the case of personal delivery, on the date of such delivery; (b) in the case of facsimile or electronic mail transmission, on the date of transmission; and (c) in the case of mailing or delivery by service, on the date of delivery as shown on the return receipt or delivery service statement.

4.4 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California or of any other state. The Company and each Investor consent to personal jurisdiction in Orange County, California.

4.5 Severability. If any term in this Agreement is held to be illegal or unenforceable, the remaining portions of this Agreement shall not be affected, and this Agreement shall be construed and enforced as if this Agreement did not contain the term held to be illegal or unenforceable.

4.6 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and each Investor and their respective successors and assigns.

4.7 Transfer of Shares. Notwithstanding the legend required to be placed on the Shares by applicable law, no registration statement or opinion of counsel shall be necessary: (a) for a transfer of Shares to the respective estate of each Investor or for a transfer of Shares by gift, will or intestate succession of each Investor to his or her spouse or to the siblings, lineal descendants or ancestors each Investor or his or her spouse, if the transferee agrees in writing to be subject to the terms hereof to the same extent as if he or she were the original Investor hereunder; or (b) for a transfer of Shares pursuant to SEC Rule 144 or any successor rule, or for a transfer of Shares pursuant to a registration statement declared effective by the SEC under the Securities Act relating to the Securities.

4.8 Survival of Representations, Warranties and Covenants. The representations and warranties of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement indefinitely, and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the other parties. The covenants of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement until such time as the Notes have been paid in full.

4.9 California Commissioner of Corporations. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF THE SECURITIES OR PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION FOR SUCH SECURITIES PRIOR TO THE QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATIONS BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

CNS RESPONSE, INC.

By: _____
Name: Paul Buck
Title: Chief Financial Officer

Address/Fax Number/E-mail Address for Notice:

85 Enterprise, Suite 410
Aliso Viejo, CA 92656
Fax: (866) 867 4446
pbuck@cnsresponse.com

INVESTOR:

By: _____
Name:

Title:

[SIGNATURE PAGE TO SUBSCRIPTION AGREEMENT]

SCHEDULE A

Name, Address, Fax Number, E-Mail Address of Investor and Tax ID Number	***Aggregate Purchase Price***
Fax#:_____ Email:_____ TaxID:_____	$_____
TOTAL:	

SUBSCRIPTION AGREEMENT

THIS SUBSCRIPTION AGREEMENT (this "**Agreement**") is made as of May 23, 2013 by and between CNS Response, Inc., a Delaware corporation (the "**Company**"), and the investor listed on Schedule A hereto (each, an "**Investor**" and together, the "**Investors**").

AGREEMENT

In consideration for the mutual promises and covenants herein, the parties agree as follows:

WHEREAS, the Company is offering in a private placement up to $2.0 million of its common stock, par value $.0001 per share ("**Shares**" or "**Common Stock**") for $.25 per share in a private placement to accredited investors pursuant to a Confidential Offering Memorandum dated May 23, 2013; and

WHEREAS, the undersigned desires to subscribe for and purchase the number of Shares set forth on Schedule A hereto.

SECTION 1 – PURCHASE AND SALE OF SHARES

1.1 Purchase and Sale of Shares. The Company has authorized the issuance and sale, in accordance with the terms hereof, of shares of Common Stock, in the aggregate amount of up to $2,000,000 (the "**Shares Cap Amount**"). On the terms and subject to the conditions set forth in this Agreement, at the Closings (as defined below), the Company agrees to issue to each Investor, and the Investor agrees to purchase from the Company, in the amount set forth on Schedule A. The Company will sell Shares to more than one Investor, each of whom will enter into Subscription Agreement substantially identical to this one. The financing pursuant to which the Company is issuing the Shares is hereinafter referred to as the "**Financing**".

1.2 Closings.

(a) Initial Closing. The initial purchase and sale of the Shares shall take place at a closing (the "**Initial Closing**") which shall take place remotely via exchange of documents and signatures at 10:00 a.m. Eastern Time on the business day immediately following execution and delivery of this Agreement, or at such other place and time as may be agreed to among the Company and the Investors. At the Initial Closing, the Company shall deliver to each of the Investors purchasing Securities for cash at such closing a certificate or certification representing such number of Shares as is set forth opposite such Investor's name on Schedule A under the column entitled "Purchase Price (Initial Closing)" against receipt of a check subject to collection or a wire transfer in immediately available funds of the purchase price, to an account designated by the Company.

(b) Additional Closings. The Company shall have the right, on one or more occasions, to hold additional closings (each, an "**Additional Closing**", and collectively with the Initial Closing, the "**Closings**", and individually, a "**Closing**"), pursuant to which it shall have the right to issue and sell additional Shares to additional Investors or existing Investors (provided that no Additional Closings shall take place later than September 16, 2013). At each Additional Closing, the Company shall deliver to each Investor purchasing Shares at such closing a certificate or certification representing such number of Shares as is in set forth opposite such Investor's name on Schedule A under the column entitled "**Purchase Price**" against receipt of a check subject to collection or a wire transfer in immediately available funds of the purchase price, to an account designated by the Company. By receiving Shares at an Additional Closing, each Investor so receiving Shares thereby represents that its representations and warranties contained in Section 3 are true and correct as of the date of such Additional Closing. The aggregate principal amount of Shares that may be issued at Closings hereunder shall, in no event exceed the Share Cap Amount.

The obligation of each Investor to purchase and pay cash for the Shares to be delivered at a Closing is, unless waived by such Investor, subject to the condition that the Company's representations and warranties contained in Section 2 are true, complete and correct on and as of such Closing date. The obligation of the Company to sell and issue Shares to be delivered at a Closing is, unless waived by the Company, subject to the condition that the relevant Investor's representations and warranties contained in Section 3 are true, complete and correct on and as of the Closing Date.

SECTION 2 - REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to each Investor as follows:

2.1 Existence of Company. The Company is a duly organized Delaware corporation. The Company is validly existing in all jurisdictions where it conducts its business.

2.2 Authority to Execute. The execution, delivery and performance by the Company of this Agreement and the issuance of the Shares are within the Company's corporate powers, have been duly authorized by all necessary corporate action, do not and will not conflict with any provision of law or organizational document of the Company (including its Certificate of Incorporation or Bylaws) or of any agreement or contractual restrictions binding upon or affecting the Company or any of its property and need no further stockholder or creditor consent.

2.3 No Stockholder Approval Required. No approval of the Company's stockholders is required for (i) the entry by the Company into this Agreement, or (ii) the issuance of the Shares contemplated by this Agreement.

2.4 Valid Issuance. The Shares will be, validly issued, fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under, applicable state and federal securities laws and liens or encumbrances created by or imposed by the Investor. Assuming the accuracy of the representations of the Investor in Section 3 of this Agreement, and the Shares will be issued in compliance with all applicable federal and state securities laws.

2.5 Binding Obligation. This Agreement is, a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

2.6 Litigation. Other than the litigation disclosed in the Company's most recent SEC Reports (as defined below), no litigation or governmental proceeding is pending or threatened against the Company which may have a materially adverse effect on the financial condition, operations or prospects of the Company, and to the knowledge of the Company, no basis therefore exists.

2.7 Intellectual Property. To the best of the Company's knowledge, the Company owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and as presently proposed to be conducted, without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing proprietary rights, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products.

2.8 SEC Reports. The Company has filed all forms, reports, schedules, proxy statements, registration statements and other documents (including all exhibits thereto) required to be filed by it with the Securities and Exchange Commission (the "**SEC**") pursuant to the federal securities laws and the SEC rules and regulations thereunder, together with all certifications required pursuant to the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**") (as they have been amended since the time of their filing, including all exhibits thereto, the "**SEC Reports**"). Each of the SEC Reports complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "**Securities Act**") and the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the Sarbanes-Oxley Act and the rules and regulations of the SEC under all of the foregoing. None of the SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 3 - REPRESENTATIONS AND WARRANTIES OF THE INVESTORS

Each Investor represents and warrants to the Company as follows:

3.1 Authorization; Binding Obligations. The Investor has full power and authority to enter into this Agreement and this Agreement constitutes a valid and legally binding obligation of the Investor, enforceable against the Investor in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

3.2 Accredited Investor. The Investor is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act.

3.3 Investment for Own Account. The Shares are being acquired for his, her or its own account, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act.

3.4 Knowledge and Experience. The Investor has such knowledge and experience in financial and business matters that (s)he is capable of evaluating the merits and risks of an investment in the Shares 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, including a total loss of his/her investment.

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

3.6. Receipt of Information. The Investor has received and reviewed all the information concerning the Company, the Securities and the Shares, both written and oral, that the Investor desires. Without limiting the generality of the foregoing, the Investor has been furnished with or has had the opportunity to acquire, and to review: all information, both written and oral, that the Investor desires with respect to the Company's business, management, financial affairs and prospects. In determining whether to make this investment, the Investor has relied solely on his/her own knowledge and understanding of the Company and its business and prospects based upon the Investor's own due diligence investigations and the Company's filings with the SEC.

SECTION 4 - MISCELLANEOUS

4.1 No Waiver; Cumulative Remedies. No failure or delay on the part of any party to this Agreement in exercising any right or remedy under, or pursuant to, this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy or power preclude other or further exercise thereof, or the exercise of any other right, remedy or power. The remedies in this Agreement are cumulative and are not exclusive of any remedies provided by law.

4.2 Amendments and Waivers. Except as otherwise expressly set forth in this Agreement, any term of this Agreement may be amended (either retroactively or prospectively) with the written consent of the Company and the Investor. Any amendment effected in accordance with this Section 4.2 shall be binding upon each Investor, each future holder of Securities and the Company.

4.3 Notices, Etc. All notices, requests, consents and other communications hereunder to any party shall be deemed to be sufficient if contained in a written instrument delivered in person; sent by facsimile transmission; sent by electronic mail; duly sent by first class registered or certified mail, return receipt requested, postage prepaid; or duly sent by overnight delivery service (*e.g.*, Federal Express) addressed to such party (i) if to the Company, at the address, fax number or electronic mail address, as applicable, set forth on the signature page hereof or (ii) if to an Investor, at the address, fax number or electronic mail address, as applicable, set forth on Schedule A hereto, or at such other address, fax number or electronic mail address as may hereafter be designated in writing by the addressee to the sender. All such notices, advises and communications shall be deemed to have been received: (a) in the case of personal delivery, on the date of such delivery; (b) in the case of facsimile or electronic mail transmission, on the date of transmission; and (c) in the case of mailing or delivery by service, on the date of delivery as shown on the return receipt or delivery service statement.

4.4 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflicts of law provisions of the State of California or of any other state. The Company and each Investor consent to personal jurisdiction in Orange County, California.

4.5 Severability. If any term in this Agreement is held to be illegal or unenforceable, the remaining portions of this Agreement shall not be affected, and this Agreement shall be construed and enforced as if this Agreement did not contain the term held to be illegal or unenforceable.

4.6 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and each Investor and their respective successors and assigns.

4.7 Transfer of Shares. Notwithstanding the legend required to be placed on the Shares by applicable law, no registration statement or opinion of counsel shall be necessary: (a) for a transfer of Shares to the respective estate of each Investor or for a transfer of Shares by gift, will or intestate succession of each Investor to his or her spouse or to the siblings, lineal descendants or ancestors each Investor or his or her spouse, if the transferee agrees in writing to be subject to the terms hereof to the same extent as if he or she were the original Investor hereunder; or (b) for a transfer of Shares pursuant to SEC Rule 144 or any successor rule, or for a transfer of Shares pursuant to a registration statement declared effective by the SEC under the Securities Act relating to the Securities.

4.8 Survival of Representations, Warranties and Covenants. The representations and warranties of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement indefinitely, and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the other parties. The covenants of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement until such time as the Notes have been paid in full.

4.9 California Commissioner of Corporations. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF THE SECURITIES OR PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION FOR SUCH SECURITIES PRIOR TO THE QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATIONS BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the date first written above.

CNS RESPONSE, INC.

By: _____
Name: Paul Buck
Title: Chief Financial Officer

Address/Fax Number/E-mail Address for Notice:

85 Enterprise, Suite 410
Aliso Viejo, CA 92656
Fax: (866) 867 4446
pbuck@cnsresponse.com

INVESTOR:

By: _____
Name:

_____
Title:

[SIGNATURE PAGE TO SUBSCRIPTION AGREEMENT]

SCHEDULE A

Name, Address, Fax Number, E-Mail Address and Tax ID Number of Investor	***Aggregate Purchase Price***
Name:_____ Address:_____ _____ Fax:_____ Email:_____ Tax ID:_____	$_____
TOTAL:	

CNS RESPONSE, INC.
OMNIBUS AMENDMENT TO

SECURED CONVERTIBLE PROMISSORY NOTES (THE "OCTOBER 2010 NOTES") ISSUED IN THE AGGREGATE PRINCIPAL AMOUNT OF $3.0239 MILLION PURSUANT TO THE NOTE AND WARRANT PURCHASE AGREEMENT DATED AS OF OCTOBER 1, 2010 BY AND BETWEEN THE COMPANY AND THE INVESTORS SIGNATORY THERETO

SECURED CONVERTIBLE PROMISSORY NOTES (THE "JANUARY 2011 NOTES") ISSUED IN THE AGGREGATE PRINCIPAL AMOUNT OF $2.5 MILLION PURSUANT TO THE NOTE AND WARRANT PURCHASE AGREEMENT DATED AS OF JANUARY 11, 2011 BY AND BETWEEN THE COMPANY AND THE INVESTORS SIGNATORY THERETO

SECURED CONVERTIBLE PROMISSORY NOTES (THE "OCTOBER 2011 NOTES") ISSUED IN THE AGGREGATE PRINCIPAL AMOUNT OF $2.0 MILLION PURSUANT TO THE AMENDED AND RESTATED NOTE AND WARRANT PURCHASE AGREEMENT DATED AS OF NOVEMBER 11, 2011 BY AND BETWEEN THE COMPANY AND THE INVESTORS SIGNATORY THERETO

UNSECURED CONVERTIBLE PROMISSORY NOTE (THE "FEBRUARY 2012 NOTE") ISSUED IN THE AGGREGATE PRINCIPAL AMOUNT OF $90,000 ON FEBRUARY 29, 2012

This Omnibus Amendment (the "Amendment") to the convertible notes identified above (as previously amended, the "Prior Notes"), is made as of August 12, 2013 (the "Effective Date") by and among CNS Response, Inc., a Delaware company (the "Company") and the other parties listed on the signature pages hereto (the "Note Holders"). All capitalized terms set forth herein shall have the meanings given to such terms in the Prior Notes, unless otherwise defined herein. The holders of the Prior Notes are referred to herein as the "Note Holders."

RECITALS

A. The Company and the Note Holders are parties to one or more note and warrant purchase agreements identified above (the "Prior Purchase Agreements").

B. The Company and certain of the Note Holders subsequently entered into conversion agreements in June 2011, May 2012 and June 2012 with respect to such holders' Prior Notes.

C. The Company and a majority in aggregate principal amount outstanding of each class of Prior Notes identified above entered into an Amended and Restated Consent, Note Amendment and Warrant Forfeiture Agreement, dated as of October 24, 2012 (the "October 2012 Agreement"), pursuant to which, among other matters, the maturity date of the Prior Notes was extended to October 1, 2013, the conversion price of the Prior Notes was set at $1.00, subject to adjustment as provided in the Prior Notes, the full ratchet anti-dilution provision was removed from the terms of the Prior Notes and the warrants issued in connection therewith, the Note Holders agreed to the termination and cancellation of the common stock purchase warrants (the "Warrants") received in connection with the Prior Purchase Agreements, and the Note Holders consented to a new issuance of convertible notes (the October 2012 Notes) and to subordinate their security interests to that of the holders of such new notes.

D. The Company and the Note Holders desire to temporarily amend provisions of the Prior Notes regarding the conversion of the Notes, and the Note Holders desire to consent to related matters.

E. The Company and the Note Holders desire to amend provisions of the Prior Notes to extend the Maturity Date (as defined in the Prior Notes).

F. Each class of Prior Notes may be amended only upon the written consent of the Company and the holders of at least the majority in aggregate principal amount outstanding of the notes of such class and the holders of a majority of each class, where appropriate, intend to take action to require the conversion of all notes in each such class.

AGREEMENT

In consideration of the mutual promises contained herein and other good and valuable consideration, receipt of which is hereby acknowledged, the Company agrees on behalf of themselves and as holders of a majority in aggregate principal amount outstanding of each class of the Prior Notes, as follows:

1. Amendment of Prior Notes to lower Conversion Price Temporarily . Section 6(b) of the Prior Notes is hereby amended to change the conversion price of the Prior Notes from $1.00 to $0.25, subject to adjustment as provided in the terms of the Prior Notes, for a period of 30 days commencing on July 10, 2013 (the "Offer Period"), as set forth in the Offer Letter to All Holders of $1.00 Convertible Notes to Convert such $1.00 Notes and Interest Thereon Into Shares of Common Stock of CNS Response, Inc., dated July 10, 2013 sent by the Company to the Note Holders, in substantially the form attached hereto as Exhibit A (the "Offer Letter").

2. Amendment of Prior Notes to Extend Maturity Date. Subsection (i) of the first paragraph of each Prior Note is hereby amended and restated in its entirety to read as follows:

"(i) the maturity date of October 1, 2014,"

3. Consent of Note Holders. The Note Holders hereby affirm, consent to and ratify (i) the automatic conversion of all Prior Notes not then converted, at a conversion price of $0.25, subject to adjustment as provided in the terms of the Prior Notes, with the effective date of such conversion being August 9, 2013 and (ii) all actions previously taken by a majority in aggregate principal amount outstanding of each class of Prior Notes and Warrants under the October 2012 Agreement.

4. No Other Amendments. Except as expressly set forth above, all of the terms and conditions of the Prior Notes remain in full force and effect.

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

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

Acknowledgment of Receipt of Offer Letter, Annual Report and Quarterly Report Each Note Holder acknowledges receipt of the Offer Letter, the Company's annual report on Form 10-K for the year ended September 30, 2012 and the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2013.

Accredited Investor. Each Note Holder is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D promulgated under the Securities Act.

Investment for Own Account. The shares of the Common Stock to be issued upon conversion of the Prior Notes in accordance herewith and with the Offer Letter 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.

No Registration. Each Note Holder understands that the shares of the Company common stock (the "Common Stock") to be issued upon conversion of the Prior Note(s) in accordance herewith and with the Offer Letter have not been registered under the Securities Act of 1933, as amended (the "Securities Act") on the ground that the issuance thereof is exempt under Section 4(2) of the Act and/or Regulation D as a transaction by an issuer not involving any public offering and that, in the view of the Securities and Exchange Commission ("SEC"), the statutory basis for the exception claimed would not be present if any of the representations and warranties of the Note Holder contained in this Amendment were untrue or, notwithstanding the Note Holder's representations and warranties, the Note Holder currently had in mind acquiring any of such shares of Common Stock for resale upon the occurrence or non-occurrence of some predetermined event.

Knowledge and Experience. Each Note 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.

Speculative Investment. Each Note Holder acknowledges that an investment in the shares of Common Stock underlying the Prior Notes is speculative and involves a high degree of risk and that such Note Holder can bear the economic risk of the acceptance of such shares, including a total loss of his, her or its investment. Each Note Holder recognizes and understands that no federal, state, or other agency has recommended or endorsed the conversion of the Prior Notes and issuance of the underlying Common Stock.

Opportunity to Ask Questions. Each Note 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 Note Holder. In connection therewith, each Note 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.

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

Stop Transfer Instructions. Because of the legal restrictions imposed on resale or transfer of the Common Stock underlying the Prior Notes, each Note Holder understands that the Company shall have the right to note stop-transfer instructions in its records, and each Note Holder has been informed of the Company's intention to do so. Any sales, transfers, or other dispositions of such shares of Common Stock by the Note Holder, will be made in compliance with the Act and any other applicable securities laws, and all applicable rules and regulations promulgated thereunder and the terms of this Amendment.

6. Release. Each Note 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 Note Holder had, now has, or may hereafter have, arising out of or resulting from issuance of the Prior Notes and Warrants under the Prior Purchase Agreements and all amendments, modifications, terminations and cancellations thereof, or the shares of capital stock of the Company otherwise issuable upon conversion of the Prior Notes or exercise of the Warrants, 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) all claims to any equity interest in the Company other than as provided for herein, (ii) any and all claims with respect to rights of notice under the Prior Notes or applicable law, other than as provided for herein, effective at such time as the Prior Notes have been converted.

7. Governing Law. This Amendment will be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of law.

8. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same instrument.

9. Facsimile and Electronic Signatures. This Amendment may be executed and delivered by facsimile or electronic transmission and upon such delivery the facsimile or electronic signature will be deemed to have the same effect as if the original signature had been delivered to the other party. The original signature copy shall be subsequently delivered to the other parties. The failure to deliver the original signature copy and/or the non-receipt of the original signature copy shall have no effect upon the binding and enforceable nature of this Amendment.

[SIGNATURE PAGES FOLLOW]

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

CNS Response, Inc.

By:_____
Name:
Title:

(1) Interest will continue to accrue through to the end of the offer period and will be converted.

Holders of Prior Notes and Address of Holders:	Class of Existing Notes	Aggregate Principal Amount(s) $	Accrued and unpaid interest at June 30, 2013 (1) $	Number of Shares of Common Stock Issuable Upon Conversion of Principal and Interest
By: _____				
By: _____				
By: _____				
Grand Total				

CNS RESPONSE, INC.
2012 OMNIBUS INCENTIVE COMPENSATION PLAN

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CNS RESPONSE, INC.
2012 OMNIBUS INCENTIVE COMPENSATION PLAN

Article 1.
Effective Date, Objectives and Duration

1.1 Effective Date of the Plan . CNS Response, Inc., a Delaware corporation (the "Company"), adopted the 2012 Omnibus Incentive Compensation Plan (the "Plan") on March 22, 2012, (the "Effective Date") subject to approval by the Company's stockholders. The terms of the Plan are set forth herein.

1.2 Objectives of the Plan . The Plan is intended (a) to allow selected employees of and consultants to the Company and its Subsidiaries to acquire or increase equity ownership in the Company, thereby strengthening their commitment to the success of the Company and stimulating their efforts on behalf of the Company, and to assist the Company and its Subsidiaries in attracting new employees, officers and consultants and retaining existing employees and consultants, (b) to optimize the profitability and growth of the Company and its Subsidiaries through incentives which are consistent with the Company's goals, (c) to provide Grantees with an incentive for excellence in individual performance, (d) to promote teamwork among employees, consultants and Non-Employee Directors, and (e) to attract and retain highly qualified persons to serve as Non-Employee Directors and to promote ownership by such Non-Employee Directors of a greater proprietary interest in the Company, thereby aligning such Non-Employee Directors' interests more closely with the interests of the Company's stockholders.

1.3 Duration of the Plan . The Plan shall commence on the Effective Date and shall remain in effect, subject to the right of the Board of Directors of the Company ("Board") to amend or terminate the Plan at any time pursuant to Article 14 hereof, until the earlier of March 22, 2022, or the date all Shares subject to the Plan shall have been purchased or acquired and the restrictions on all Restricted Shares granted under the Plan shall have lapsed, according to the Plan's provisions.

Article 2.
Definitions

Whenever used in the Plan, the following terms shall have the meanings set forth below:

2.1 " Affiliate " means any corporation or other entity, including but not limited to partnerships, limited liability companies and joint ventures, with respect to which the Company, directly or indirectly, owns as applicable (a) stock possessing more than fifty percent (50%) of the total combined voting power of all classes of stock entitled to vote, or more than fifty percent (50%) of the total value of all shares of all classes of stock of such corporation, or (b) an aggregate of more than fifty percent (50%) of the profits interest or capital interest of a non-corporate entity.

2.2 " Award " means Options (including non-qualified options and Incentive Stock Options), Restricted Shares, Performance Units (which may be paid in cash), Performance Shares, Deferred Stock, Restricted Stock Units, Dividend Equivalents, Bonus Shares, or Other Stock-Based Awards granted under the Plan.

2.3 " Award Agreement " means either (a) a written agreement entered into by the Company and a Grantee setting forth the terms and provisions applicable to an Award granted under this Plan, or (b) a written statement issued by the Company to a Grantee describing the terms and provisions of such Award, including any amendment or modification thereof. The Committee may provide for the use of electronic, internet or other non-paper Award Agreements and the use of electronic, internet or other non-paper means for the acceptance thereof and actions thereunder by the Grantee.

2.4 " Board " means the Board of Directors of the Company.

2.5 " Bonus Shares " means Shares that are awarded to a Grantee with or without cost and without restrictions either in recognition of past performance (whether determined by reference to another employee benefit plan of the Company or otherwise) or as an incentive to become an Eligible Person.

2.6 " CEO " means the Chief Executive Officer of the Company.

2.7 " Code " means the Internal Revenue Code of 1986, as amended from time to time. References to a particular section of the Code include references to regulations and rulings thereunder and to successor provisions.

2.8 " Committee " or " Incentive Plan Committee " has the meaning set forth in Section 3.1(a).

2.9 " Compensation Committee " means the compensation committee of the Board.

2.10 " Common Stock " means the common stock, $0.001 par value, of the Company.

2.11 " Covered Employee " means a Grantee who, as of the last day of the fiscal year in which the value of an Award is recognizable as income for federal income tax purposes, is a "covered employee," within the meaning of Code Section 162(m), with respect to the Company.

2.12 " Deferred Stock " means a right, granted under Article 9, to receive Shares at the end of a specified deferral period.

2.13 " Disability " or " Disabled " means, unless otherwise defined in an Award Agreement, or as otherwise determined under procedures established by the Committee for purposes of the Plan:

(a) Except as provided in (b) below, a disability within the meaning of Section 22(e)(3) of the Code; and

(b) In the case of any Award that constitutes deferred compensation within the meaning of Section 409A of the Code, a disability as defined in regulations under Code Section 409A. For purpose of Code Section 409A, a Grantee will be considered Disabled if:

(i) the Grantee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or

(ii) the Grantee is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Grantee's employer.

2.14 " Dividend Equivalent " means a right to receive payments equal to dividends or property, if and when paid or distributed, on a specified number of Shares.

2.15 " Eligible Person " means any employee (including any officer) of, or non-employee consultant to, or Non-Employee Director of, the Company or any Affiliate, or potential employee (including a potential officer) of, or non-employee consultant to, the Company or an Affiliate; provided, however, that solely with respect to the grant of an Incentive Stock Option, an Eligible Person shall be any employee (including any officer) of the Company or any Subsidiary Corporation. Solely for purposes of Section 5.6(b), current or former employees or non-employee directors of, or consultants to, of an Acquired Entity who receive Substitute Awards in substitution for Acquired Entity Awards shall be considered Eligible Persons under this Plan with respect to such Substitute Awards.

2.16 " Exchange Act " means the Securities Exchange Act of 1934, as amended from time to time. References to a particular section of the Exchange Act include references to successor provisions.

2.17 " Exercise Price " means with respect to an Option, the price at which a Share may be purchased by a Grantee pursuant to such Option.

2.18 " Fair Market Value " means a price that is based on the opening, closing, actual, high, low, or the arithmetic mean of selling prices of a Share reported on The Nasdaq Capital Market ("Nasdaq"), or if not the Nasdaq, on the established stock exchange which is the principal exchange upon which the Shares are traded on the applicable date or the preceding trading day. Unless the Committee determines otherwise, if the Shares are traded over the counter at the time a determination of its Fair Market Value is required to be made hereunder, Fair Market Value shall be deemed to be equal to the arithmetic mean between the reported high and low or closing bid and asked prices of a Share on the applicable date, or if no such trades were made that day then the most recent date on which Shares were publicly traded. In the event Shares are not publicly traded at the time a determination of their value is required to be made hereunder, the determination of their Fair Market Value shall be made by the Committee in such manner as it deems appropriate provided such manner is consistent with Treasury Regulation 1.409A-1(b)(5)(iv)(B). Such definition(s) of Fair Market Value shall be specified in each Award Agreement and may differ depending on whether Fair Market Value is in reference to the grant, exercise, vesting, settlement, or payout of an Award; provided, however that in the absence of such determination, Fair Market Value means the closing price for a Share as reported by the Nasdaq (or such other principal exchange) on the date immediately preceding the Grant Date or other applicable date, or if no sales occurred that day, on the most recent date upon which sales did occur.

2.19 " Grant Date " means the date on which an Award is granted or such later date as specified in advance by the Committee.

2.20 " Grantee " means a person who has been granted an Award.

2.21 " Incentive Stock Option " means an Option that is intended to meet the requirements of Section 422 of the Code.

2.22 " Including " or " includes " means "including, without limitation," or "includes, without limitation," respectively.

2.23 " Management Committee " has the meaning set forth in Section 3.1(b).

2.24 " Non-Employee Director " means a member of the Board who is not an employee of the Company or any Affiliate.

2.25 " Option " means an option granted under Article 6 of the Plan.

2.26 " Other Stock-Based Award " means a right, granted under Article 12 hereof, that relates to or is valued by reference to Shares or other Awards relating to Shares.

2.27 " Performance-Based Exception " means the performance-based exception from the tax deductibility limitations of Code Section 162(m) contained in Code Section 162(m)(4)(C) (including the special provisions for options thereunder). Notwithstanding the foregoing, nothing in this Plan shall be construed to mean that an Award which does not satisfy the requirements for performance-based compensation under Code Section 162(m) does not constitute performance-based compensation for other purposes, including Code Section 409A.

2.28 " Performance Measures " has the meaning set forth in Section 4.4.

2.29 " Performance Period " means the time period during which performance goals must be met.

2.30 " Performance Share " and " Performance Unit " have the respective meanings set forth in Article 8.

2.31 " Period of Restriction " means the period during which Restricted Shares are subject to forfeiture if the conditions specified in the Award Agreement are not satisfied.

2.32 " Person " means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

2.33 " Restricted Shares " means Shares, granted under Article 7, that are both subject to forfeiture and are nontransferable if the Grantee does not satisfy the conditions specified in the Award Agreement applicable to such Shares.

2.34 " Restricted Stock Units " are rights, granted under Article 9, to receive Shares if the Grantee satisfies the conditions specified in the Award Agreement applicable to such rights.

2.35 " Rule 16b-3 " means Rule 16b-3 promulgated by the SEC under the Exchange Act, as amended from time to time, together with any successor rule.

2.36 " SEC " means the United States Securities and Exchange Commission, or any successor thereto.

2.37 " Section 16 Non-Employee Director " means a member of the Board who satisfies the requirements to qualify as a "non-employee director" under Rule 16b-3.

2.38 " Section 16 Person " means a person who is subject to potential liability under Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company.

2.39 " Separation from Service " means, with respect to any Award that constitutes deferred compensation within the meaning of Code Section 409A, a "separation from service" as defined in Treasury Regulation Section 1.409A-1(h). For this purpose, a "separation from service" is deemed to occur on the date that the Company and the Grantee reasonably anticipate that the level of bona fide services the Grantee would perform for the Company and/or any Affiliates after that date (whether as an employee, Non-Employee Director or consultant or independent contractor) would permanently decrease to a level that, based on the facts and circumstances, would constitute a separation from service; provided that a decrease to a level that is 50% or more of the average level of bona fide services provided over the prior 36 months shall not be a separation from service, and a decrease to a level that is 20% or less of the average level of such bona fide services shall be a separation from service. The Committee retains the right and discretion to specify, and may specify, whether a separation from service occurs for individuals providing services to the Company or an Affiliate immediately prior to an asset purchase transaction in which the Company or an Affiliate is the seller who provide services to a buyer after and in connection with such asset purchase transaction; provided, such specification is made in accordance with the requirements of Treasury Regulation Section 1.409A-1(h)(4).

2.40 " Share " means a share of Common Stock, and such other securities of the Company, as may be substituted or resubstituted for Shares pursuant to Section 4.2 hereof.

2.41 " Subsidiary Corporation " means a corporation other than the Company in an unbroken chain of corporations beginning with the Company if, at the time of granting the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.42 " Surviving Company " means the surviving corporation in any merger or consolidation, involving the Company, including the Company if the Company is the surviving corporation, or the direct or indirect parent company of the Company or such surviving corporation following a sale of substantially all of the outstanding stock of the Company.

2.43 " Term " of any Option means the period beginning on the Grant Date of an Option and ending on the date such Option expires, terminates or is cancelled. No Option under this Plan shall have a Term exceeding 10 years.

2.44 " Termination of Affiliation " occurs on the first day on which an individual is for any reason no longer providing services to the Company or any Affiliate in the capacity of an employee, officer or consultant or with respect to an individual who is an employee or officer of or a consultant to an Affiliate, the first day on which such entity ceases to be an Affiliate of the Company; provided, however, that if an Award constitutes deferred compensation within the meaning of Code Section 409A, Termination of Affiliation with respect to such Award shall mean the Grantee's Separation from Service.

Article 3.
Administration

3.1 Committee .

(a) Subject to Section 3.2, the Plan shall be administered by a Committee (the "Incentive Plan Committee" or the "Committee") appointed by the Board from time to time. Notwithstanding the foregoing, either the Board or the Compensation Committee may at any time and in one or more instances reserve administrative powers to itself as the Committee or exercise any of the administrative powers of the Committee. To the extent the Board or Compensation Committee considers it desirable to comply with Rule 16b-3 or meet the Performance-Based Exception, the Committee shall consist of two or more directors of the Company, all of whom qualify as "outside directors" within the meaning of Code Section 162(m) and Section 16 Non-Employee Directors. The number of members of the Committee shall from time to time be increased or decreased, and shall be subject to such conditions, in each case if and to the extent the Board deems it appropriate to permit transactions in Shares pursuant to the Plan to satisfy such conditions of Rule 16b-3 and the Performance-Based Exception as then in effect.

(b) The Board or the Compensation Committee may appoint and delegate to another committee ("Management Committee"), or to the CEO, any or all of the authority of the Board or the Committee, as applicable, with respect to Awards to Grantees other than Grantees who are executive officers, Non-Employee Directors, or are (or are expected to be) Covered Employees and/or are Section 16 Persons at the time any such delegated authority is exercised.

(c) Unless the context requires otherwise, any references herein to "Committee" include references to the Incentive Plan Committee, the Board or the Compensation Committee to the extent any has assumed or exercises administrative powers itself as the Committee pursuant to subsection (a), and to the Management Committee or the CEO to the extent either has been delegated authority pursuant to subsection (b), as applicable; provided that (i) for purposes of Awards to Non-Employee Directors, "Committee" shall include only the full Board, and (ii) for purposes of Awards intended to comply with Rule 16b-3 or meet the Performance-Based Exception, "Committee" shall include only the Incentive Plan Committee or the Compensation Committee.

3.2 Powers of Committee . Subject to and consistent with the provisions of the Plan, the Committee has full and final authority and sole discretion as follows; provided that any such authority or discretion exercised with respect to a specific Non-Employee Director shall be approved by the affirmative vote of a majority of the members of the Board, even if not a quorum, but excluding the Non-Employee Director with respect to whom such authority or discretion is exercised:

(a) to determine when, to whom and in what types and amounts Awards should be granted;

(b) to grant Awards to Eligible Persons in any number and to determine the terms and conditions applicable to each Award (including the number of Shares or other property to which an Award will relate, any Exercise Price or purchase price, any limitation or restriction, any schedule for or performance conditions relating to the earning of the Award or the lapse of limitations, forfeiture restrictions, restrictions on exercisability or transferability, any performance goals including those relating to the Company and/or an Affiliate and/or any division thereof and/or an individual, and/or vesting based on the passage of time, based in each case on such considerations as the Committee shall determine);

(c) to determine the benefit payable under any Performance Unit, Performance Share, Dividend Equivalent, Other Stock-Based Award and to determine whether any performance or vesting conditions have been satisfied;

(d) to determine whether or not specific Awards shall be granted in connection with other specific Awards, and if so, whether they shall be exercisable cumulatively with, or alternatively to, such other specific Awards and all other matters to be determined in connection with an Award;

(e) to determine the Term of any Option;

(f) to determine the amount, if any, that a Grantee shall pay for Restricted Shares, whether to permit or require the payment of cash dividends thereon to be deferred and the terms related thereto, when Restricted Shares (including Restricted Shares acquired upon the exercise of an Option) shall be forfeited and whether such shares shall be held in escrow;

(g) to determine whether, to what extent and under what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards or other property, or an Award may be accelerated, vested, canceled, forfeited or surrendered or any terms of the Award may be waived, and to accelerate the exercisability of, and to accelerate or waive any or all of the terms and conditions applicable to, any Award or any group of Awards for any reason and at any time;

(h) to determine with respect to Awards granted to Eligible Persons whether, to what extent and under what circumstances cash, Shares, other Awards, other property and other amounts payable with respect to an Award will be deferred, either at the election of the Grantee or if and to the extent specified in the Award Agreement automatically or at the election of the Committee (whether to limit loss of deductions pursuant to Code Section 162(m) or otherwise);

(i) to offer to exchange or buy out any previously granted Award for a payment in cash, Shares or other Award;

(j) to construe and interpret the Plan and to make all determinations, including factual determinations, necessary or advisable for the administration of the Plan;

(k) to make, amend, suspend, waive and rescind rules and regulations relating to the Plan;

(l) to appoint such agents as the Committee may deem necessary or advisable to administer the Plan;

(m) to determine the terms and conditions of all Award Agreements applicable to Eligible Persons (which need not be identical) and, with the consent of the Grantee, to amend any such Award Agreement at any time, among other things, to permit transfers of such Awards to the extent permitted by the Plan; provided that the consent of the Grantee shall not be required for any amendment (i) which does not adversely affect the rights of the Grantee, or (ii) which is necessary or advisable (as determined by the Committee) to carry out the purpose of the Award as a result of any new applicable law or change in an existing applicable law, or (iii) to the extent the Award Agreement specifically permits amendment without consent;

(n) to cancel, with the consent of the Grantee, outstanding Awards and to grant new Awards in substitution therefor;

(o) to impose such additional terms and conditions upon the grant, exercise or retention of Awards as the Committee may, before or concurrently with the grant thereof, deem appropriate, including limiting the percentage of Awards which may from time to time be exercised by a Grantee;

(p) to make adjustments in the terms and conditions of, and the criteria in, Awards in recognition of unusual or nonrecurring events (including events described in Section 4.2) affecting the Company or an Affiliate or the financial statements of the Company or an Affiliate, or in response to changes in applicable laws, regulations or accounting principles; provided, however, that in no event shall such adjustment increase the value of an Award for a person expected to be a Covered Employee for whom the Committee desires to have the Performance-Based Exception apply;

(q) to correct any defect or supply any omission or reconcile any inconsistency, and to construe and interpret the Plan, the rules and regulations, and Award Agreement or any other instrument entered into or relating to an Award under the Plan; and

(r) to take any other action with respect to any matters relating to the Plan for which it is responsible and to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

Any action of the Committee with respect to the Plan shall be final, conclusive and binding on all persons, including the Company, its Affiliates, any Grantee, any person claiming any rights under the Plan from or through any Grantee, and stockholders, except to the extent the Committee may subsequently modify, or take further action not consistent with, its prior action. If not specified in the Plan, the time at which the Committee must or may make any determination shall be determined by the Committee, and any such determination may thereafter be modified by the Committee. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any Affiliate the authority, subject to such terms as the Committee shall determine, to perform specified functions under the Plan (subject to Sections 4.3 and 5.7(c)).

3.3 No Repricings . Notwithstanding any provision in Section 3.2 to the contrary, the terms of any outstanding Option may not be amended to reduce the Exercise Price of such Option or cancel any outstanding Option in exchange for other Options with an Exercise Price that is less than the Exercise Price of the cancelled Option or for any cash payment (or Shares having with a Fair Market Value) in an amount that exceeds the excess of the Fair Market Value of the Shares underlying such cancelled Option over the aggregate Exercise Price of such Option or for any other Award, without stockholder approval; provided, however, that the restrictions set forth in this Section 3.3, shall not apply to any adjustment allowed under to Section 4.2.

Article 4.
Shares Subject to the Plan, Maximum Awards, and 162(m) Compliance

4.1 Number of Shares Available for Grants . Subject to adjustment as provided in Section 4.2 and except as provided in Section 5.6(b), the maximum number of Shares hereby reserved for delivery under the Plan shall be 15,000,000, including Shares delivered pursuant to the exercise of Incentive Stock Options granted hereunder.

If any Shares subject to an Award granted hereunder (other than a Substitute Award granted pursuant to Section 5.6.(b)) are forfeited or such Award otherwise terminates without the delivery of such Shares, the Shares subject to such Award, to the extent of any such forfeiture or termination, shall again be available for grant under the Plan. For avoidance of doubt, however, if any Shares subject to an Award granted hereunder are withheld or applied as payment in connection with the exercise of an Award or the withholding or payment of taxes related thereto ("Returned Shares"), such Returned Shares will be treated as having been delivered for purposes of determining the maximum number of Shares available for grant under the Plan and shall not again be treated as available for grant under the Plan.

Shares delivered pursuant to the Plan may be, in whole or in part, authorized and unissued Shares, or treasury Shares, including Shares repurchased by the Company for purposes of the Plan.

4.2 Adjustments in Authorized Shares and Awards; Liquidation, Dissolution or Change of Control .

(a) Adjustment in Authorized Shares and Awards . In the event that the Committee determines that any dividend or other distribution (whether in the form of Shares, or other property), recapitalization, forward or reverse stock split, subdivision, consolidation or reduction of capital, reorganization, merger, consolidation, scheme of arrangement, split-up, spin-off or combination involving the Company or repurchase or exchange of Shares or other securities of the Company or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that any adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, (iii) the Exercise Price with respect to any Award or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award, and (iv) the number and kind of Shares of outstanding Restricted Shares, or the Shares underlying any Award of Restricted Stock Units, Deferred Stock or other outstanding Share-based Award. Notwithstanding the foregoing, no such adjustment shall be authorized with respect to any Options to the extent that such adjustment would cause the Option (determined as if such Option was an Incentive Stock Option) to violate Section 424(a) of the Code or otherwise subject any Grantee to taxation under Section 409A of the Code; and *provided further* that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

(b) Merger, Consolidation or Similar Corporate Transaction . In the event of a merger or consolidation of the Company with or into another corporation or a sale of substantially all of the stock of the Company (a "Corporate Transaction"), unless an outstanding Award is assumed by the Surviving Company or replaced with an equivalent Award granted by the Surviving Company in substitution for such outstanding Award, such Award shall be vested and non-forfeitable and any conditions on such Award shall lapse, as to all or any part of such Award, including Shares as to which the Award would not otherwise be exercisable or non-forfeitable. If an Award becomes exercisable or non-forfeitable in lieu of assumption or replacement by the Surviving Company in a Corporate Transaction, the Committee may either (i) allow all Grantees to exercise such Awards of Options within a reasonable period prior to the consummation of the transactions and cancel any outstanding Awards that remain unexercised upon consummation of the Corporate Transaction, or (ii) cancel any or all outstanding Awards of Options in exchange for a payment (in securities or other property) in an amount equal to the amount that the Grantee would have received (net of the Exercise Price) if such Options were fully vested and exercised immediately prior to the consummation of the Corporate Transaction. Notwithstanding the foregoing, if an Option is not assumed by the Surviving Company or replaced with an equivalent Award issued by the Surviving Company and the Exercise Price with respect to any outstanding Option exceeds the Fair Market Value of the Shares immediately prior to the consummation of the Corporation Transaction, such Awards shall be cancelled without any payment to the Grantee.

(c) Liquidation or Dissolution of the Company . In the event of the proposed dissolution or liquidation of the Company, each Award will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. Additionally, the Committee may, in the exercise of its sole discretion, cause Awards to be vested and non-forfeitable and cause any conditions on any such Award to lapse, as to all or any part of such Award, including Shares as to which the Award would not otherwise be exercisable or non-forfeitable and allow all Grantees to exercise such Awards of Options within a reasonable period prior to the consummation of such proposed action. Any Awards that remain unexercised upon consummation of such proposed action shall be cancelled.

(d) Deferred Compensation and Awards Intended to Comply With the Performance-Based Exception . Notwithstanding the forgoing provisions of this Section 4.2,

(i) if an Award (other than an Option) is intended to comply with the Performance-Based Exception, no payment or settlement of such Award shall be made pursuant to Section 4.2(b) or (c) until the earlier (i) the consummation of a change of control of the Company (as determined by the Committee in its sole discretion) or (ii) the attainment of the Performance Measure(s) upon which the Award is conditioned as certified by the Committee; and

(ii) if an Award constitutes deferred compensation within the meaning of Code Section 409A, no payment or settlement of such Award shall be made pursuant to Section 4.2(b) or (c), unless the Corporate Transaction or the dissolution or liquidation of the Company, as applicable, constitutes a change in ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company as described in Treasury Regulation Section 1.409A-3(i)(5).

4.3 Compliance with Section 162(m) of the Code.

(a) Section 162(m) Compliance. To the extent the Committee determines that compliance with the Performance-Based Exception is desirable with respect to an Award, this Section 4.3(a) shall apply. Each Award that is intended to meet the Performance-Based Exception and is granted to a person the Committee believes is likely to be a Covered Employee at the time such Award is settled shall comply with the requirements of the Performance-Based Exception; provided, however, that to the extent Code Section 162(m) requires periodic shareholder approval of performance measures, such approval shall not be required for the continuation of the Plan or as a condition to grant any Award hereunder after such approval is required. In addition, in the event that changes are made to Code Section 162(m) to permit flexibility with respect to the Award or Awards available under the Plan, the Committee may, subject to this Section 4.3, make any adjustments to such Awards as it deems appropriate.

(b) Annual Individual Limitations. No Grantee may be granted Awards (other than Awards that cannot be satisfied in Shares) with respect to more than 1,500,000 Shares, subject to adjustment as provided in Section 4.2(a), in a single calendar year and except as otherwise provided in Section 5.6(b).

4.4 Performance-Based Exception Under Section 162(m). Unless and until the Committee proposes for stockholder vote and stockholders approve a change in the general performance measures set forth in this Section 4.4, for Awards (other than Options) designed to qualify for the Performance-Based Exception, the objective Performance Measure(s) shall be chosen from among the following: the attainment by a Share a specified Fair Market Value for a specified period of time; earnings per Share; earnings per Share from continuing operations; total shareholder return; return on assets; return on equity; return on capital; earnings before or after taxes, interest, depreciation, and/or amortization; return on investment; interest expense; cash flow; cash flow from operations; revenues; sales; costs; assets; debt; expenses; inventory turnover; economic value added; cost of capital; operating margin; gross margin; net income before or after taxes; operating earnings either before or after interest expense and either before or after incentives or asset impairments; attainment of cost reduction goals; revenue per customer; customer turnover rate; asset impairments; financing costs; capital expenditures; working capital; strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals, objectively identified project milestones, production volume levels, cost targets, and goals relating to acquisitions or divestitures; customer satisfaction, aggregate product price and other product price measures; safety record; service reliability; debt rating; and achievement of business and operational goals, such as market share, new products, and/or business development. Any applicable Performance Measure may be applied on a pre- or post-tax basis. The Committee may, on the Grant Date of an Award intended to comply with the Performance-Based Exception, and in the case of other grants, at any time, provide that the formula for such Award may include or exclude items to measure specific objectives, such as losses from discontinued operations, extraordinary gains or losses, the cumulative effect of accounting changes, acquisitions or divestitures, foreign exchange impacts and any unusual, nonrecurring gain or loss. The levels of performance required with respect to Performance Measures may be expressed in absolute or relative levels and may be based upon a set increase, set positive result, maintenance of the status quo, set decrease or set negative result. Performance Measures may differ for Awards to different Grantees. The Committee shall specify the weighting (which may be the same or different for multiple objectives) to be given to each performance objective for purposes of determining the final amount payable with respect to any such Award. Any one or more of the Performance Measures may apply to the Grantee, a department, unit, division or function within the Company or any one or more Affiliates; and may apply either alone or relative to the performance of other businesses or individuals (including industry or general market indices). For Awards intended to comply with the Performance-Based Exception, the Committee shall set the Performance Measures within the time period prescribed by Section 162(m) of the Code.

The Committee shall have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Awards which are designed to qualify for the Performance-Based Exception may not (unless the Committee determines to amend the Award so that it no longer qualified for the Performance-Based Exception) be adjusted upward (the Committee shall retain the discretion to adjust such Awards downward). The Committee may not, unless the Committee determines to amend the Award so that it no longer qualifies for the Performance-Based Exception, delegate any responsibility with respect to Awards intended to qualify for the Performance-Based Exception. All determinations by the Committee as to the achievement of the Performance Measure(s) shall be in writing prior to payment of the Award.

In the event that applicable laws change to permit Committee discretion to alter the governing performance measures without obtaining stockholder approval of such changes, and still qualify for the Performance-Based Exception, the Committee shall have sole discretion to make such changes without obtaining stockholder approval.

Article 5.
Eligibility and General Conditions of Awards

5.1 Eligibility . The Committee may in its discretion grant Awards to any Eligible Person, whether or not he or she has previously received an Award; provided, however, that all Awards made to Non-Employee Directors shall be determined by the Board in its sole discretion.

5.2 Award Agreement . To the extent not set forth in the Plan, the terms and conditions of each Award shall be set forth in an Award Agreement.

5.3 General Terms and Termination of Affiliation . The Committee may impose on any Award or the exercise or settlement thereof, at the date of grant or, subject to the provisions of Section 14.2, thereafter, such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine, including terms requiring forfeiture, acceleration or pro-rata acceleration of Awards in the event of a Termination of Affiliation by the Grantee. Except as may be required under the Delaware General Corporation Law, Awards may be granted for no consideration other than prior and future services. Except as otherwise determined by the Committee pursuant to this Section 5.3, all Options that have not been exercised, or any other Awards that remain subject to a risk of forfeiture or which are not otherwise vested, or which have outstanding Performance Periods, at the time of a Termination of Affiliation shall be forfeited to the Company.

5.4 Nontransferability of Awards .

(a) Each Award and each right under any Award shall be exercisable only by the Grantee during the Grantee's lifetime, or, if permissible under applicable law, by the Grantee's guardian or legal representative or by a transferee receiving such Award pursuant to a qualified domestic relations order (a "QDRO") as defined in the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

(b) No Award (prior to the time, if applicable, Shares are delivered in respect of such Award), and no right under any Award, may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Grantee otherwise than by will or by the laws of descent and distribution (or in the case of Restricted Shares, to the Company) or pursuant to a QDRO, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that the designation of a beneficiary to receive benefits in the event of the Grantee's death shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(c) Notwithstanding subsections (a) and (b) above, to the extent provided in the Award Agreement, Options (other than Incentive Stock Options) and Restricted Shares, may be transferred, without consideration, to a Permitted Transferee. For this purpose, a "Permitted Transferee" in respect of any Grantee means any member of the Immediate Family of such Grantee, any trust of which all of the primary beneficiaries are such Grantee or members of his or her Immediate Family, or any partnership (including limited liability companies and similar entities) of which all of the partners or members are such Grantee or members of his or her Immediate Family; and the "Immediate Family" of a Grantee means the Grantee's spouse, children, stepchildren, grandchildren, parents, stepparents, siblings, grandparents, nieces and nephews. Such Option may be exercised by such transferee in accordance with the terms of the Award Agreement. If so determined by the Committee, a Grantee may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Grantee, and to receive any distribution with respect to any Award upon the death of the Grantee. A transferee, beneficiary, guardian, legal representative or other person claiming any rights under the Plan from or through any Grantee shall be subject to and consistent with the provisions of the Plan and any applicable Award Agreement, except to the extent the Plan and Award Agreement otherwise provide with respect to such persons, and to any additional restrictions or limitations deemed necessary or appropriate by the Committee.

(d) Nothing herein shall be construed as requiring the Committee to honor a QDRO except to the extent required under applicable law.

5.5 Cancellation and Rescission of Awards . Unless the Award Agreement specifies otherwise, the Committee may cancel, rescind, suspend, withhold, or otherwise limit or restrict any unexercised Award at any time if the Grantee is not in compliance with all applicable provisions of the Award Agreement and the Plan or if the Grantee has a Termination of Affiliation.

5.6 Stand-Alone, Tandem and Substitute Awards .

(a) Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for, any other Award granted under the Plan unless such tandem or substitution Award would subject the Grantee to tax penalties imposed under Section 409A of the Code; provided further that if the stand-alone, tandem or substitute Award is intended to qualify for the Performance-Based Exception, it must separately satisfy the requirements of the Performance-Based Exception. If an Award is granted in substitution for another Award or any non-Plan award or benefit, the Committee shall require the surrender of such other Award or non-Plan award or benefit in consideration for the grant of the new Award. Awards granted in addition to or in tandem with other Awards or non-Plan awards or benefits may be granted either at the same time as or at a different time from the grant of such other Awards or non-Plan awards or benefits;

(b) The Committee may, in its discretion and on such terms and conditions as the Committee considers appropriate in the circumstances, grant Awards under the Plan ("Substitute Awards") in substitution for stock and stock-based awards ("Acquired Entity Awards") held by current or former employees or non-employee directors of, or consultants to, another corporation or entity who become Eligible Persons as the result of a merger or consolidation of the employing corporation or other entity (the "Acquired Entity") with the Company or an Affiliate or the acquisition by the Company or an Affiliate of property or stock of the Acquired Entity immediately prior to such merger, consolidation or acquisition in order to preserve for the Grantee the economic value of all or a portion of such Acquired Entity Award at such price as the Committee determines necessary to achieve preservation of economic value. The limitations of Sections 4.1 and 4.3 on the number of Shares reserved or available for grants shall not apply to Substitute Awards granted under this Section 5.6(b).

5.7 Compliance with Rule 16b-3 .

(a) Six-Month Holding Period Advice . Unless a Grantee could otherwise dispose of or exercise a derivative security or dispose of Shares delivered under the Plan without incurring liability under Section 16(b) of the Exchange Act, the Committee may advise or require a Grantee to comply with the following in order to avoid incurring liability under Section 16(b) of the Exchange Act: (i) at least six months must elapse from the date of acquisition of a derivative security under the Plan to the date of disposition of the derivative security (other than upon exercise or conversion) or its underlying equity security, and (ii) Shares granted or awarded under the Plan other than upon exercise or conversion of a derivative security must be held for at least six months from the date of grant of an Award.

(b) Reformation to Comply with Exchange Act Rules . To the extent the Committee determines that a grant or other transaction by a Section 16 Person should comply with applicable provisions of Rule 16b-3 (except for transactions exempted under alternative Exchange Act rules), the Committee shall take such actions as necessary to make such grant or other transaction so comply, and if any provision of this Plan or any Award Agreement relating to a given Award does not comply with the requirements of Rule 16b-3 as then applicable to any such grant or transaction, such provision will be construed or deemed amended, if the Committee so determines, to the extent necessary to conform to the then applicable requirements of Rule 16b-3.

(c) Rule 16b-3 Administration . Any function relating to a Section 16 Person shall be performed solely by the Committee or the Board if necessary to ensure compliance with applicable requirements of Rule 16b-3, to the extent the Committee determines that such compliance is desired. Each member of the Committee or person acting on behalf of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him by any officer, manager or other employee of the Company or any Affiliate, the Company's independent certified public accountants or any executive compensation consultant or attorney or other professional retained by the Company to assist in the administration of the Plan.

5.8 Deferral of Award Payouts . The Committee may permit a Grantee to defer, or if and to the extent specified in an Award Agreement require the Grantee to defer, receipt of the delivery of Shares that would otherwise be due by virtue of the lapse or waiver of restrictions with respect to Restricted Stock Units, the satisfaction of any requirements or goals with respect to Performance Units or Performance Shares, the lapse or waiver of the deferral period for Deferred Stock, or the lapse or waiver of restrictions with respect to Other Stock-Based Awards. If the Committee permits such deferrals, the Committee shall establish rules and procedures for making such deferral elections and for the payment of such deferrals, which shall conform in form and substance with applicable regulations promulgated under Section 409A of the Code and Article 15 to ensure that the Grantee is not subjected to tax penalties under Section 409A of the Code with respect to such deferrals. Except as otherwise provided in an Award Agreement, any payment or any Shares that are subject to such deferral shall be made or delivered to the Grantee as specified in the Award Agreement or pursuant to the Grantee's deferral election.

Article 6.
Stock Options

6.1 Grant of Options . Subject to and consistent with the provisions of the Plan, Options may be granted to any Eligible Person in such number, and upon such terms, and at any time and from time to time as shall be determined by the Committee.

6.2 Award Agreement . Each Option grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the Term of the Option, the number of Shares to which the Option pertains, the time or times at which such Option shall be exercisable and such other provisions as the Committee shall determine.

6.3 Option Exercise Price. The Exercise Price of an Option under this Plan shall be determined in the sole discretion of the Committee but may not be less than 100% of the Fair Market Value of a Share on the Grant Date.

6.4 Grant of Incentive Stock Options. At the time of the grant of any Option, the Committee may in its discretion designate that such Option shall be made subject to additional restrictions to permit it to qualify as an Incentive Stock Option. Any Option designated as an Incentive Stock Option:

(a) shall be granted only to an employee of the Company or a Subsidiary Corporation;

(b) shall have an Exercise Price of not less than 100% of the Fair Market Value of a Share on the Grant Date, and, if granted to a person who owns capital stock (including stock treated as owned under Section 424(d) of the Code) possessing more than 10% of the total combined voting power of all classes of capital stock of the Company or any Subsidiary Corporation (a "More Than 10% Owner"), have an Exercise Price not less than 110% of the Fair Market Value of a Share on its Grant Date;

(c) shall be for a period of not more than 10 years (five years if the Grantee is a More Than 10% Owner) from its Grant Date, and shall be subject to earlier termination as provided herein or in the applicable Award Agreement;

(d) shall not have an aggregate Fair Market Value (as of the Grant Date) of the Shares with respect to which Incentive Stock Options (whether granted under the Plan or any other stock option plan of the Grantee's employer or any parent or Subsidiary Corporation ("Other Plans")) are exercisable for the first time by such Grantee during any calendar year ("Current Grant"), determined in accordance with the provisions of Section 422 of the Code, which exceeds $100,000 (the "$100,000 Limit");

(e) shall, if the aggregate Fair Market Value of the Shares (determined on the Grant Date) with respect to the Current Grant and all Incentive Stock Options previously granted under the Plan and any Other Plans which are exercisable for the first time during a calendar year ("Prior Grants") would exceed the $100,000 Limit, be, as to the portion in excess of the $100,000 Limit, exercisable as a separate option that is not an Incentive Stock Option at such date or dates as are provided in the Current Grant;

(f) shall require the Grantee to notify the Committee of any disposition of any Shares delivered pursuant to the exercise of the Incentive Stock Option under the circumstances described in Section 421(b) of the Code (relating to holding periods and certain disqualifying dispositions) ("Disqualifying Disposition") within 10 days of such a Disqualifying Disposition;

(g) shall by its terms not be assignable or transferable other than by will or the laws of descent and distribution and may be exercised, during the Grantee's lifetime, only by the Grantee; provided, however, that the Grantee may, to the extent provided in the Plan in any manner specified by the Committee, designate in writing a beneficiary to exercise his or her Incentive Stock Option after the Grantee's death; and

(h) shall, if such Option nevertheless fails to meet the foregoing requirements, or otherwise fails to meet the requirements of Section 422 of the Code for an Incentive Stock Option, be treated for all purposes of this Plan, except as otherwise provided in subsections (d) and (e) above, as an Option that is not an Incentive Stock Option.

Notwithstanding the foregoing and Section 3.2, the Committee may, without the consent of the Grantee, at any time before the exercise of an Option (whether or not an Incentive Stock Option), take any action necessary to prevent such Option from being treated as an Incentive Stock Option.

6.5 Payment of Exercise Price. Except as otherwise provided by the Committee in an Award Agreement, Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares made by any one or more of the following means:

(a) cash, personal check or wire transfer;

(b) delivery of Common Stock owned by the Grantee prior to exercise, valued at their Fair Market Value on the date of exercise;

(c) with the approval of the Committee, Shares acquired upon the exercise of such Option, such Shares valued at their Fair Market Value on the date of exercise;

(d) with the approval of the Committee, Restricted Shares held by the Grantee prior to the exercise of the Option, each such share valued at the Fair Market Value of a Share on the date of exercise; or

(e) subject to applicable law (including the prohibited loan provisions of Section 402 of the Sarbanes Oxley Act of 2002), through the sale of the Shares acquired on exercise of the Option through a broker-dealer to whom the Grantee has submitted an irrevocable notice of exercise and irrevocable instructions to deliver promptly to the Company the amount of sale or loan proceeds sufficient to pay for such Shares, together with, if requested by the Company, the amount of federal, state, local or foreign withholding taxes payable by Grantee by reason of such exercise.

The Committee may in its discretion specify that, if any Restricted Shares ("Tendered Restricted Shares") are used to pay the Exercise Price, (x) all the Shares acquired on exercise of the Option shall be subject to the same restrictions as the Tendered Restricted Shares, determined as of the date of exercise of the Option, or (y) a number of Shares acquired on exercise of the Option equal to the number of Tendered Restricted Shares shall be subject to the same restrictions as the Tendered Restricted Shares, determined as of the date of exercise of the Option.

Article 7.
Restricted Shares

7.1 Grant of Restricted Shares. Subject to and consistent with the provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Shares to any Eligible Person in such amounts as the Committee shall determine.

7.2 Award Agreement. Each grant of Restricted Shares shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Restricted Shares granted, and such other provisions as the Committee shall determine. The Committee may impose such conditions and/or restrictions on any Restricted Shares granted pursuant to the Plan as it may deem advisable, including restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, and/or restrictions under applicable securities laws; provided that such conditions and/or restrictions may lapse, if so determined by the Committee, in the event of the Grantee's Termination of Affiliation due to death, Disability, or involuntary termination by the Company or an Affiliate without "cause."

7.3 Consideration for Restricted Shares. The Committee shall determine the amount, if any, that a Grantee shall pay for Restricted Shares.

7.4 Effect of Forfeiture. If Restricted Shares are forfeited, and if the Grantee was required to pay for such shares or acquired such Restricted Shares upon the exercise of an Option, the Grantee shall be deemed to have resold such Restricted Shares to the Company at a price equal to the lesser of (x) the amount paid by the Grantee for such Restricted Shares, or (y) the Fair Market Value of a Share on the date of such forfeiture. The Company shall pay to the Grantee the deemed sale price as soon as is administratively practical. Such Restricted Shares shall cease to be outstanding and shall no longer confer on the Grantee thereof any rights as a stockholder of the Company, from and after the date of the event causing the forfeiture, whether or not the Grantee accepts the Company's tender of payment for such Restricted Shares.

7.5 Escrow; Legends. The Committee may provide that the certificates for any Restricted Shares (x) shall be held (together with a stock power executed in blank by the Grantee) in escrow by the Secretary of the Company until such Restricted Shares become nonforfeitable or are forfeited and/or (y) shall bear an appropriate legend restricting the transfer of such Restricted Shares under the Plan. If any Restricted Shares become nonforfeitable, the Company shall cause certificates for such shares to be delivered without such legend.

Article 8.
Performance Units and Performance Shares

8.1 Grant of Performance Units and Performance Shares. Subject to and consistent with the provisions of the Plan, Performance Units or Performance Shares may be granted to any Eligible Person in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

8.2 Value/Performance Goals. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units or Performance Shares that will be paid to the Grantee. With respect to Covered Employees and to the extent the Committee deems it appropriate to comply with Section 162(m) of the Code, all performance goals shall be objective Performance Measures satisfying the requirements for the Performance-Based Exception and shall be set by the Committee within the time period prescribed by Section 162(m) of the Code and related regulations.

(a) Performance Unit. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant.

(b) Performance Share. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant.

8.3 Earning of Performance Units and Performance Shares. After the applicable Performance Period has ended, the holder of Performance Units or Performance Shares shall be entitled to payment based on the level of achievement of performance goals set by the Committee. If a Performance Unit or Performance Share Award is intended to comply with the Performance-Based Exception, the Committee shall certify the level of achievement of the performance goals in writing before the Award is settled.

At the discretion of the Committee, the settlement of Performance Units or Performance Shares may be in cash, Shares of equivalent value, or in some combination thereof, as set forth in the Award Agreement.

If a Grantee is promoted, demoted or transferred to a different business unit of the Company during a Performance Period, then, to the extent the Committee determines that the Award, the performance goals, or the Performance Period are no longer appropriate, the Committee may adjust, change, eliminate or cancel the Award, the performance goals, or the applicable Performance Period, as it deems appropriate in order to make them appropriate and comparable to the initial Award, the performance goals, or the Performance Period.

At the discretion of the Committee, a Grantee may be entitled to receive any dividends or Dividend Equivalents declared with respect to Shares deliverable in connection with grants of Performance Units or Performance Shares which have been earned, but not yet delivered to the Grantee.

Article 9.
Deferred Stock and Restricted Stock Units

9.1 Grant of Deferred Stock and Restricted Stock Units. Subject to and consistent with the provisions of the Plan, the Committee, at any time and from time to time, may grant Deferred Stock and/or Restricted Stock Units to any Eligible Person, in such amount and upon such terms as the Committee shall determine. Deferred Stock must conform in form and substance with applicable regulations promulgated under Section 409A of the Code and with Article 15 to ensure that the Grantee is not subjected to tax penalties under Section 409A of the Code with respect to such Deferred Stock.

9.2 Vesting and Delivery. Delivery of Shares subject to a Deferred Stock grant will occur upon expiration of the deferral period or upon the occurrence of one or more of the distribution events described in Section 409A(a)(2) of the Code as specified by the Committee in the Grantee's Award Agreement for the Award of Deferred Stock. Delivery of Shares subject to a grant of Restricted Stock Units occurs no later than the 15 th day of the third month following the end of the taxable year of the Grantee or the fiscal year of the Company in which the Grantee's rights under such Restricted Stock Units are no longer subject to a substantial risk of forfeiture as defined in final regulations under Section 409A of the Code. In addition, an Award of Deferred Stock may be subject to such substantial risk of forfeiture conditions as the Committee may impose, which conditions may lapse at such times or upon the achievement of such objectives as the Committee shall determine at the time of grant or thereafter. A Grantee awarded Deferred Stock or Restricted Stock Units will have no voting rights with respect to such Deferred Stock or Restricted Stock Units prior to the delivery of Shares in settlement of such Deferred Stock and/or Restricted Stock Units. Unless otherwise determined by the Committee, a Grantee will have the rights to receive Dividend Equivalents in respect of Deferred Stock and/or Restricted Stock Units, which Dividend Equivalents shall be deemed reinvested in additional Shares of Deferred Stock or Restricted Stock Units, as applicable. Unless otherwise determined by the Committee, to the extent that the Grantee has a Termination of Affiliation while the Deferred Stock or Restricted Stock Units remains subject to a substantial risk of forfeiture, such Deferred Shares or Restricted Stock Units shall be forfeited, unless the Committee determines that such substantial risk of forfeiture shall lapse in the event of the Grantee's Termination of Affiliation due to death, Disability, or involuntary termination by the Company or an Affiliate without "cause."

Article 10.
Dividend Equivalents

The Committee is authorized to grant Awards of Dividend Equivalents alone or in conjunction with other Awards. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares or additional Awards or otherwise reinvested.

Article 11.
Bonus Shares

Subject to the terms of the Plan, the Committee may grant Bonus Shares to any Eligible Person, in such amount and upon such terms and at any time and from time to time as shall be determined by the Committee.

Article 12.
Other Stock-Based Awards

The Committee is authorized, subject to limitations under applicable law, to grant such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including Shares awarded which are not subject to any restrictions or conditions, convertible or exchangeable debt securities or other rights convertible or exchangeable into Shares, and Awards valued by reference to the value of securities of or the performance of specified Affiliates. Subject to and consistent with the provisions of the Plan, the Committee shall determine the terms and conditions of such Awards. Except as provided by the Committee, Shares delivered pursuant to a purchase right granted under this Article 12 shall be purchased for such consideration, paid for by such methods and in such forms, including cash, Shares, outstanding Awards or other property, as the Committee shall determine.

Article 13.
Non-Employee Director Awards

Subject to the terms of the Plan, the Board may grant Awards to any Non-Employee Director, in such amount and upon such terms and at any time and from time to time as shall be determined by the full Board in its sole discretion.

Article 14.
Amendment, Modification, and Termination

14.1 Amendment, Modification, and Termination. Subject to Section 14.2, the Board may, at any time and from time to time, alter, amend, suspend, discontinue or terminate the Plan in whole or in part without the approval of the Company's stockholders, except that (a) any amendment or alteration shall be subject to the approval of the Company's stockholders if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted, and (b) the Board may otherwise, in its discretion, determine to submit other such amendments or alterations to stockholders for approval.

14.2 Awards Previously Granted. Except as otherwise specifically permitted in the Plan or an Award Agreement, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Grantee of such Award.

Article 15.
Compliance with Code Section 409A

15.1 Awards Subject to Code Section 409A. The provisions of this Article 15 shall apply to any Award or portion thereof that is or becomes deferred compensation subject to Code Section 409A (a "409A Award"), notwithstanding any provision to the contrary contained in the Plan or the Award Agreement applicable to such Award.

15.2 Deferral and/or Distribution Elections. Except as otherwise permitted or required by Code Section 409A, the following rules shall apply to any deferral and/or elections as to the form or timing of distributions (each, an "Election") that may be permitted or required by the Committee with respect to a 409A Award:

(a) Any Election must be in writing and specify the amount being deferred, and the time and form of distribution (i.e., lump sum or installments) as permitted by this Plan. An Election may but need not specify whether payment will be made in Shares or other property.

(b) Any Election shall become irrevocable as of the deadline specified by the Committee, which shall not be later than December 31 of the year preceding the year in which services relating to the Award commence; provided, however, that if the Award qualifies as "performance-based compensation" for purposes of Code Section 409A and is based on services performed over a period of at least twelve (12) months, then the deadline may be no later than six (6) months prior to the end of such Performance Period.

(c) Unless otherwise provided by the Committee, an Election shall continue in effect until a written election to revoke or change such Election is received by the Committee, prior to the last day for making an Election for the subsequent year.

15.3 Subsequent Elections. Except as otherwise permitted or required by Code Section 409A, any 409A Award which permits a subsequent Election to further defer the distribution or change the form of distribution shall comply with the following requirements:

(a) No subsequent Election may take effect until at least twelve (12) months after the date on which the subsequent Election is made;

(b) Each subsequent Election related to a distribution upon separation from service, a specified time, or a change in control as defined in Section 15.4(e) must result in a delay of the distribution for a period of not less than five (5) years from the date such distribution would otherwise have been made; and

(c) No subsequent Election related to a distribution to be made at a specified time or pursuant to a fixed schedule shall be made less than twelve (12) months prior to the date the first scheduled payment would otherwise be made.

15.4 Distributions Pursuant to Deferral Elections. Except as otherwise permitted or required by Code Section 409A, no distribution in settlement of a 409A Award may commence earlier than:

(a) Separation from Service;

(b) The date the Participant becomes Disabled (as defined in Section 2.13(b);

(c) The Participant's death;

(d) A specified time (or pursuant to a fixed schedule) that is either (i) specified by the Committee upon the grant of the Award and set forth in the Award Agreement or (ii) specified by the Grantee in an Election complying with the requirements of Section 15.2 and/or 15.3, as applicable; or

(e) A change in control of the Company within the meaning of Treasury Regulation Section 1.409A-3(h)(5).

15.5 Six Month Delay. Notwithstanding anything herein or in any Award Agreement or Election to the contrary, to the extent that distribution of a 409A Award is triggered by a Grantee's Separation from Service, if the Grantee is then a "specified employee" (as defined in Treasury Regulation Section 1.409A-1(i)), no distribution may be made before the date which is six (6) months after such Grantee's Separation from Service, or, if earlier, the date of the Grantee's death.

15.6 Death or Disability. Unless the Award Agreement otherwise provides, if a Grantee dies or becomes Disabled before complete distribution of amounts payable upon settlement of a 409A Award, such undistributed amounts, to the extent vested, shall be distributed as provided in the Participants Election. If the Participant has made no Election with respect to distributions upon death or Disability, all such distributions shall be paid in a lump sum within 90 days following the date of the Participant's death or Disability.

15.7 No Acceleration of Distributions. This Plan does not permit the acceleration of the time or schedule of any distribution under a 409A Award, except as provided by Code Section 409A and/or applicable regulations or rulings issued thereunder.

Article 16.
Withholding

16.1 Required Withholding.

(a) The Committee in its sole discretion may provide that when taxes are to be withheld in connection with the exercise of an Option, or upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, or upon payment of any other benefit or right under this Plan (the date on which such exercise occurs or such restrictions lapse or such payment of any other benefit or right occurs hereinafter referred to as the "Tax Date"), the Grantee may elect to make payment for the withholding of federal, state and local taxes, including Social Security and Medicare ("FICA") taxes by one or a combination of the following methods:

(i) payment of an amount in cash equal to the amount to be withheld;

(ii) delivering part or all of the amount to be withheld in the form of Common Stock valued at its Fair Market Value on the Tax Date;

(iii) requesting the Company to withhold from those Shares that would otherwise be received upon exercise of the Option, upon the lapse of restrictions on Restricted Stock, or upon the transfer of Shares, a number of Shares having a Fair Market Value on the Tax Date equal to the amount to be withheld; or

(iv) withholding from any compensation otherwise due to the Grantee.

The Committee in its sole discretion may provide that the maximum amount of tax withholding upon exercise of an Option, upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, to be satisfied by withholding Shares upon exercise of such Option, upon the lapse of restrictions on Restricted Shares, or upon the transfer of Shares, pursuant to clause (iii) above shall not exceed the minimum amount of taxes, including FICA taxes, required to be withheld under federal, state and local law. An election by Grantee under this subsection is irrevocable. Any fractional share amount and any additional withholding not paid by the withholding or surrender of Shares must be paid in cash. If no timely election is made, the Grantee must deliver cash to satisfy all tax withholding requirements.

(b) Any Grantee who makes a Disqualifying Disposition (as defined in Section 6.4(f)) or an election under Section 83(b) of the Code shall remit to the Company an amount sufficient to satisfy all resulting tax withholding requirements in the same manner as set forth in subsection (a).

16.2 Notification under Code Section 83(b). If the Grantee, in connection with the exercise of any Option, or the grant of Restricted Shares, makes the election permitted under Section 83(b) of the Code to include in such Grantee's gross income in the year of transfer the amounts specified in Section 83(b) of the Code, then such Grantee shall notify the Company of such election within 10 days of filing the notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under Section 83(b) of the Code. The Committee may, in connection with the grant of an Award or at any time thereafter, prohibit a Grantee from making the election described above.

Article 17.
Additional Provisions

17.1 Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise of all or substantially all of the business and/or assets of the Company.

17.2 Severability. If any part of the Plan is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not invalidate any other part of the Plan. Any Section or part of a Section so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such Section or part of a Section to the fullest extent possible while remaining lawful and valid.

17.3 Requirements of Law. The granting of Awards and the delivery of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. Notwithstanding any provision of the Plan or any Award, Grantees shall not be entitled to exercise, or receive benefits under, any Award, and the Company (and any Affiliate) shall not be obligated to deliver any Shares or deliver benefits to a Grantee, if such exercise or delivery would constitute a violation by the Grantee or the Company of any applicable law or regulation.

17.4 Securities Law Compliance.

(a) If the Committee deems it necessary to comply with any applicable securities law, or the requirements of any stock exchange upon which Shares may be listed, the Committee may impose any restriction on Awards or Shares acquired pursuant to Awards under the Plan as it may deem advisable. All certificates for Shares delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the SEC, any stock exchange upon which Shares are then listed, any applicable securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. If so requested by the Company, the Grantee shall make a written representation to the Company that he or she will not sell or offer to sell any Shares unless a registration statement shall be in effect with respect to such Shares under the Securities Act of 1993, as amended, and any applicable state securities law or unless he or she shall have furnished to the Company, in form and substance satisfactory to the Company, that such registration is not required.

(b) If the Committee determines that the exercise or nonforfeitability of, or delivery of benefits pursuant to, any Award would violate any applicable provision of securities laws or the listing requirements of any national securities exchange or national market system on which are listed any of the Company's equity securities, then the Committee may postpone any such exercise, nonforfeitability or delivery, as applicable, but the Company shall use all reasonable efforts to cause such exercise, nonforfeitability or delivery to comply with all such provisions at the earliest practicable date.

17.5 Awards Subject to Claw-Back Policies. Notwithstanding any provisions herein to the contrary, all Awards granted hereunder shall be subject to the terms of any recoupment policy currently in effect or subsequently adopted by the Board to implement Section 304 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") or Section 10D of the Exchange Act (or with any amendment or modification of such recoupment policy adopted by the Board) to the extent that such Award (whether or not previously exercised or settled) or the value of such Award is required to be returned to the Company pursuant to the terms of such recoupment policy.

17.6 No Rights as a Stockholder. No Grantee shall have any rights as a stockholder of the Company with respect to the Shares (other than Restricted Shares) which may be deliverable upon exercise or payment of such Award until such Shares have been delivered to him or her. Restricted Shares, whether held by a Grantee or in escrow by the Secretary of the Company, shall confer on the Grantee all rights of a stockholder of the Company, except as otherwise provided in the Plan or Award Agreement. At the time of a grant of Restricted Shares, the Committee may require the payment of cash dividends thereon to be deferred and, if the Committee so determines, reinvested in additional Restricted Shares. Stock dividends and deferred cash dividends issued with respect to Restricted Shares shall be subject to the same restrictions and other terms as apply to the Restricted Shares with respect to which such dividends are issued. The Committee may in its discretion provide for payment of interest on deferred cash dividends.

17.7 Nature of Payments. Unless otherwise specified in the Award Agreement, Awards shall be special incentive payments to the Grantee and shall not be taken into account in computing the amount of salary or compensation of the Grantee for purposes of determining any pension, retirement, death or other benefit under (a) any pension, retirement, profit sharing, bonus, insurance or other employee benefit plan of the Company or any Affiliate, except as such plan shall otherwise expressly provide, or (b) any agreement between (i) the Company or any Affiliate and (ii) the Grantee, except as such agreement shall otherwise expressly provide.

17.8 Non-Exclusivity of Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other compensatory arrangements for employees or Non-Employee Directors as it may deem desirable.

17.9 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Delaware, other than its laws respecting choice of law.

17.10 Unfunded Status of Awards; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Grantee pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give any such Grantee any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares or other property pursuant to any Award which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines.

17.11 Affiliation. Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or any Affiliate to terminate any Grantee's employment or consulting contract at any time, nor confer upon any Grantee the right to continue in the employ of or as an officer of or as a consultant to the Company or any Affiliate.

17.12 Participation. No employee or officer shall have the right to be selected to receive an Award under this Plan or, having been so selected, to be selected to receive a future Award.

17.13 Military Service. Awards shall be administered in accordance with Section 414(u) of the Code and the Uniformed Services Employment and Reemployment Rights Act of 1994.

17.14 Construction. The following rules of construction will apply to the Plan: (a) the word "or" is disjunctive but not necessarily exclusive, and (b) words in the singular include the plural, words in the plural include the singular, and words in the neuter gender include the masculine and feminine genders and words in the masculine or feminine gender include the other neuter genders.

17.15 Headings. The headings of articles and sections are included solely for convenience of reference, and if there is any conflict between such headings and the text of this Plan, the text shall control.

17.16 Obligations. Unless otherwise specified in the Award Agreement, the obligation to deliver, pay or transfer any amount of money or other property pursuant to Awards under this Plan shall be the sole obligation of a Grantee's employer; provided that the obligation to deliver or transfer any Shares pursuant to Awards under this Plan shall be the sole obligation of the Company.

17.17 No Right to Continue as Director. Nothing in the Plan or any Award Agreement shall confer upon any Non-Employee Director the right to continue to serve as a director of the Company.

17.18 Stockholder Approval. All Awards granted on or after the Effective Date and prior to the date the Company's stockholders approve the Plan are expressly conditioned upon and subject to approval of the Plan by the Company's stockholders.

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: August 14, 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: August 14, 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 June 30, 2013 (the "Report") by CNS Response, Inc. (the "Registrant"), the undersigned hereby certifies that to the best of his knowledge:

1. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 14, 2013

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

Date: August 14, 2013

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