

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 March 31, 2017

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

**MYnd Analytics, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**87-0419387**  
(I.R.S. Employer  
Identification No.)

\_\_\_\_\_  
**26522 La Alameda, Suite 290**  
**Mission Viejo, California 92691**  
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer   
(Do not check if a smaller reporting company)  
Emerging Growth Company

Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 15, 2017, the issuer had 2,534,061 shares of common stock, par value \$0.001 per share, issued and outstanding.

MYnd Analytics, Inc.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**MYND ANALYTICS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                             | For the three months ended<br>March 31, |              | For the six months ended<br>March 31, |                |
|---------------------------------------------|-----------------------------------------|--------------|---------------------------------------|----------------|
|                                             | 2017                                    | 2016         | 2017                                  | 2016           |
| <b>REVENUES</b>                             |                                         |              |                                       |                |
| Neurometric Services                        | \$ 31,900                               | \$ 20,700    | \$ 54,100                             | \$ 45,400      |
| <b>OPERATING EXPENSES</b>                   |                                         |              |                                       |                |
| Cost of neurometric services revenue        | 3,800                                   | 1,400        | 7,600                                 | 2,700          |
| Research                                    | 29,300                                  | 22,700       | 60,900                                | 45,300         |
| Product development                         | 292,800                                 | 183,000      | 588,100                               | 306,400        |
| Sales and marketing                         | 191,800                                 | 133,000      | 297,500                               | 256,100        |
| General and administrative                  | 934,200                                 | 370,600      | 1,955,900                             | 749,600        |
| Total operating expenses                    | 1,451,900                               | 710,700      | 2,910,000                             | 1,360,100      |
| OPERATING LOSS                              | (1,420,000)                             | (690,000)    | (2,855,900)                           | (1,314,700)    |
| <b>OTHER INCOME (EXPENSE):</b>              |                                         |              |                                       |                |
| Interest expense, net                       | (1,400)                                 | (239,600)    | (3,900)                               | (739,800)      |
| Loss on extinguishment of debt              | -                                       | -            | -                                     | (2,337,400)    |
| Gain on derivative liabilities              | -                                       | 786,900      | -                                     | 798,200        |
| Total other income (expense)                | (1,400)                                 | 547,300      | (3,900)                               | (2,279,000)    |
| LOSS BEFORE PROVISION FOR INCOME TAXES      | (1,421,400)                             | (142,700)    | (2,859,800)                           | (3,593,700)    |
| Provision for income taxes                  | 30,600                                  | -            | 32,400                                | 300            |
| NET LOSS                                    | \$ (1,452,000)                          | \$ (142,700) | \$ (2,892,200)                        | \$ (3,594,000) |
| <b>BASIC AND DILUTED LOSS PER SHARE:</b>    |                                         |              |                                       |                |
| From continuing operations                  | \$ (0.61)                               | \$ (0.28)    | \$ (1.29)                             | \$ (7.01)      |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b> |                                         |              |                                       |                |
| Basic and Diluted                           | 2,372,394                               | 513,345      | 2,236,728                             | 512,716        |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**MYND ANALYTICS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

|                                                                                                                                                                                           | March 31,<br>2017          | September 30,<br>2016      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| <b>ASSETS</b>                                                                                                                                                                             |                            |                            |
| <b>CURRENT ASSETS:</b>                                                                                                                                                                    |                            |                            |
| Cash                                                                                                                                                                                      | \$ 1,754,400               | \$ 318,200                 |
| Accounts receivable, net                                                                                                                                                                  | 7,200                      | 5,100                      |
| Prepaid insurance                                                                                                                                                                         | 104,300                    | 59,800                     |
| Prepaid common stock                                                                                                                                                                      | 368,300                    | 808,000                    |
| Prepaid other assets                                                                                                                                                                      | 17,300                     | 18,800                     |
| Total current assets                                                                                                                                                                      | <u>2,251,500</u>           | <u>1,209,900</u>           |
| Furniture and equipment, net                                                                                                                                                              | 90,700                     | 9,500                      |
| Intangible assets                                                                                                                                                                         | 76,200                     | 87,100                     |
| Other assets                                                                                                                                                                              | 11,700                     | 13,600                     |
| <b>TOTAL ASSETS</b>                                                                                                                                                                       | <b><u>\$ 2,430,100</u></b> | <b><u>\$ 1,320,100</u></b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>                                                                                                                                              |                            |                            |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                               |                            |                            |
| Accounts payable (including \$9,600 and \$10,000 to related parties as of March 31, 2017, and September 30, 2016, respectively)                                                           | \$ 720,000                 | \$ 426,600                 |
| Accrued liabilities                                                                                                                                                                       | 116,000                    | 64,900                     |
| Accrued compensation                                                                                                                                                                      | 519,900                    | 509,400                    |
| Accrued compensation – related parties                                                                                                                                                    | 436,200                    | 436,200                    |
| Deferred revenue - grant funds                                                                                                                                                            | 45,900                     | 45,900                     |
| Current portion of note payable                                                                                                                                                           | 58,000                     | 56,300                     |
| Current portion of capital lease                                                                                                                                                          | 1,200                      | 1,200                      |
| Total current liabilities                                                                                                                                                                 | <u>1,897,200</u>           | <u>1,540,500</u>           |
| <b>LONG-TERM LIABILITIES</b>                                                                                                                                                              |                            |                            |
| Long term portion of note payable                                                                                                                                                         | 2,000                      | 31,400                     |
| Long term portion of capital lease                                                                                                                                                        | 4,100                      | 4,700                      |
| Total long-term liabilities                                                                                                                                                               | <u>6,100</u>               | <u>36,100</u>              |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                                  | <b><u>1,903,300</u></b>    | <b><u>1,576,600</u></b>    |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                                                                              |                            |                            |
| Common stock, \$0.001 par value; authorized 500,000,000 shares and issued and outstanding 2,528,061 shares and 1,941,061 shares as of March 31, 2017 and September 30, 2016, respectively | 2,500                      | 1,900                      |
| Additional paid-in capital                                                                                                                                                                | 71,950,300                 | 68,275,400                 |
| Accumulated deficit                                                                                                                                                                       | (71,426,000)               | (68,533,800)               |
| Total stockholders' equity (deficit)                                                                                                                                                      | <u>526,800</u>             | <u>(256,500)</u>           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                         | <b><u>\$ 2,430,100</u></b> | <b><u>\$ 1,320,100</u></b> |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**MYND ANALYTICS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                             | For the six months ended |                   |
|-----------------------------------------------------------------------------|--------------------------|-------------------|
|                                                                             | March 31,                |                   |
|                                                                             | 2017                     | 2016              |
| <b>OPERATING ACTIVITIES:</b>                                                |                          |                   |
| Net loss                                                                    | \$ (2,892,200)           | \$ (3,594,000)    |
| Adjustments to reconcile net loss to net cash used in operating activities: |                          |                   |
| Depreciation and amortization                                               | 18,100                   | 2,700             |
| Gain on derivative liability valuation                                      | -                        | (798,200)         |
| Stock based compensation                                                    | 462,700                  | 70,900            |
| Loss on extinguishment of debt                                              | -                        | 2,337,400         |
| Financing expenses                                                          | -                        | 738,600           |
| Changes in operating assets and liabilities:                                |                          |                   |
| Accounts receivable                                                         | (2,100)                  | 5,000             |
| Prepays and other                                                           | (43,000)                 | (66,300)          |
| Accounts payable and accrued liabilities                                    | 316,800                  | (81,600)          |
| Amortization of grant of common stock                                       | 526,200                  | 6,900             |
| Security deposits                                                           | 1,900                    | (9,400)           |
| Deferred compensation                                                       | 10,500                   | 48,100            |
| Net cash used in operating activities                                       | (1,601,100)              | (1,339,900)       |
| <b>INVESTING ACTIVITIES:</b>                                                |                          |                   |
| Purchase of fixed assets                                                    | (84,800)                 | (1,000)           |
| Intangible assets                                                           | (3,600)                  | (9,000)           |
| Net cash used in investing activities                                       | (88,400)                 | (10,000)          |
| <b>FINANCING ACTIVITIES:</b>                                                |                          |                   |
| Repayment of a capital lease                                                | (600)                    | (2,000)           |
| Net proceeds from sale of common stock, private placement                   | 2,981,300                | -                 |
| Net proceeds from sale of common stock, purchase agreement                  | 145,000                  | -                 |
| Net proceeds from issuance of secured convertible debt                      | -                        | 1,360,000         |
| Net cash provided by financing activities                                   | 3,125,700                | 1,358,000         |
| <b>NET INCREASE IN CASH</b>                                                 | <b>1,436,200</b>         | <b>8,100</b>      |
| <b>CASH- BEGINNING OF THE QUARTER</b>                                       | <b>318,200</b>           | <b>432,100</b>    |
| <b>CASH- END OF THE QUARTER</b>                                             | <b>\$ 1,754,400</b>      | <b>\$ 440,200</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                    |                          |                   |
| Cash paid during the period for:                                            |                          |                   |
| Interest                                                                    | \$ 200                   | \$ 1,300          |
| Income taxes                                                                | \$ 32,400                | \$ 300            |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**MYND ANALYTICS, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED MARCH 31, 2017**

|                                                                           | Common Stock     |                 | Additional           | Accumulated            | Total             |
|---------------------------------------------------------------------------|------------------|-----------------|----------------------|------------------------|-------------------|
|                                                                           | Shares           | Amount          | Paid-in<br>Capital   | Deficit                |                   |
| Balance at September 30, 2016 (Audited)                                   | 1,941,061        | \$ 1,900        | \$ 68,275,400        | \$ (68,533,800)        | \$ (256,500)      |
| Stock-based compensation                                                  | —                | —               | 462,700              | —                      | 462,700           |
| Stock issued for private placement of shares                              | 477,000          | 500             | 2,980,800            | —                      | 2,981,300         |
| Stock issued for purchase agreement to Aspire Capital                     | 20,000           | —               | 145,000              | —                      | 145,000           |
| Commitment shares issued to Aspire Capital pursuant to Purchase Agreement | 80,000           | 100             | (100)                | —                      | —                 |
| Common Stock issued to Vendor                                             | 10,000           | —               | 86,500               | —                      | 86,500            |
| Net loss                                                                  | —                | —               | —                    | (2,892,200)            | (2,892,200)       |
| Balance at March 31, 2017                                                 | <u>2,528,061</u> | <u>\$ 2,500</u> | <u>\$ 71,950,300</u> | <u>\$ (71,426,000)</u> | <u>\$ 526,800</u> |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**MYND ANALYTICS, INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS**

**Organization and Nature of Operations**

MYnd Analytics, Inc. (“MYnd,” “CNS,” “we,” “us,” “our,” or the “Company”), formerly known as CNS Response Inc., was incorporated in Delaware on March 20, 1987, under the name Age Research, Inc. Prior to January 16, 2007, the Company (then called Strativation, Inc.) was a “shell company” with nominal assets and our 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. At the annual meeting held on October 28, 2015, shareholders approved a change in our name from CNS Response, Inc. to MYnd Analytics, Inc. On November 2, 2015, the Company filed an amendment to its Certificate of Incorporation which, among other things, effected the name change to MYnd Analytics, Inc.

The Company is a predictive analytics company that has developed a decision support tool to help physicians reduce trial and error treatment in mental health and provide more personalized care to patients. The Company provides objective clinical decision support to healthcare providers for the personalized treatment of behavioral disorders, including depression, anxiety, bipolar disorder, post-traumatic stress disorder (“PTSD”) and other non-psychotic disorders. The Company uses its proprietary neurometric platform, PEER Online, to generate Psychiatric EEG Evaluation Registry (“PEER”) Reports to predict the likelihood of response by an individual to a range of medications prescribed for the treatment of behavioral disorders. The Company continues to be focused on military personnel and their family members who are suffering from Depression, PTSD and other disorders through the military, Veterans Administration, and Canadian Forces. Commercial expansion is focused on payer and self-insured markets, provider direct sales to multi-physician and multi-practice provider groups, and patient direct referrals to these groups. The Company continues to expand its database, with a particular focus on younger adults and adolescents.

The Company acquired the Neuro-Therapy Clinic, Inc. (“NTC”) on January 15, 2008, to provide behavioral health care services. NTC’s operations were discontinued effective September 30, 2012.

On September 21, 2016, the Company effected a 1-for-200 reverse stock-split (“reverse split”) of its common stock, par value \$0.001 per share (the “Common Stock”), where every 200 shares of the Company’s Common Stock issued and outstanding immediately prior to the reverse-split were automatically combined into one share of Common Stock. Because the Amendment did not reduce the number of authorized shares of Common Stock, 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.

*The Aspire Capital Equity Line*

On December 6, 2016, the Company, entered into a common stock purchase agreement (the “Purchase Agreement”) with Aspire Capital Fund, LLC (“Aspire Capital”) which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company’s common stock over the 30-month term of the Purchase Agreement. Concurrently with entering into the Purchase Agreement, the Company also entered into a registration rights agreement with Aspire Capital (the “Registration Rights Agreement”), pursuant to which the Company maintains an effective registration statement registering the sale of the shares of Common Stock that have and may be issued to Aspire under the Purchase Agreement. Under the Purchase Agreement, on any trading day selected by the Company on which the closing sale price of its Common Stock is equal to or greater than \$0.50 per share, the Company has the right, in its sole discretion, to present Aspire Capital with a purchase notice, directing Aspire Capital (as principal) to purchase up to 50,000 shares of Common Stock per business day, up to \$10.0 million of the Company’s common stock in the aggregate at a per share purchase price equal to the lesser of:

- a) the lowest sale price of Common Stock on the purchase date; or
- b) the arithmetic average of the three (3) lowest closing sale prices for Common Stock during the twelve (12) consecutive trading days ending on the trading day immediately preceding the purchase date.

In addition, on any date on which the Company submits a purchase notice to Aspire Capital in an amount equal to 50,000 shares and the closing sale price of the Company’s stock is greater than \$0.50 per share, the Company also has the right, in its sole discretion, to present Aspire Capital with a volume-weighted average price purchase notice (each, a “VWAP Purchase Notice”) directing Aspire Capital to purchase an amount of stock equal to up to 30% of the aggregate shares of Common Stock traded on its principal market on the next trading day (the “VWAP Purchase Date”), subject to a maximum number of shares the Company may determine. The purchase price per share pursuant to such VWAP Purchase Notice is generally 95% of the volume-weighted average price for Common Stock traded on its principal market on the VWAP Purchase Date.

The purchase price will be adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the period(s) used to compute the Purchase Price. The Company may deliver multiple Purchase Notices and VWAP Purchase Notices to Aspire Capital from time to time during the term of the Purchase Agreement, so long as the most recent purchase has been completed.

The Purchase Agreement provides that the Company and Aspire Capital will not effect any sales under the Purchase Agreement on any purchase date where the closing sale price of the Company's common stock is less than \$0.50. There are no trading volume requirements or restrictions under the Purchase Agreement, and the Company will control the timing and amount of sales of Common Stock to Aspire Capital. Aspire Capital has no right to require any sales by the Company, but is obligated to make purchases from the Company as directed by the Company in accordance with the Purchase Agreement. There are no limitations on use of proceeds, financial or business covenants, restrictions on future fundings, rights of first refusal, participation rights, penalties or liquidated damages in the Purchase Agreement. In consideration for entering into the Purchase Agreement, concurrently with the execution of the Purchase Agreement, the Company issued to Aspire Capital 80,000 shares of Common Stock (the "Commitment Shares"). The Purchase Agreement may be terminated by the Company at any time, at its discretion, without any cost to the Company. Aspire Capital has agreed that neither it nor any of its agents, representatives and affiliates shall engage in any direct or indirect short-selling or hedging of Common Stock during any time prior to the termination of the Purchase Agreement. Any proceeds from the Company receives under the Purchase Agreement are expected to be used for working capital and general corporate purposes.

Given the Company's access to approximately \$9.9 million remaining under the Aspire Purchase Agreement, the Company believes that it will have sufficient cash for its operations, capital equipment purchases, accounts payable and accruals for over a year. However, if the Company is not able to access capital under the Aspire Purchase Agreement for any reason, or from other sources including revenue, strategic partnerships or investors, it will be required to identify other sources of capital to maintain its operations. Our risk factors are described under the heading "Risk Factors" in Part I Item 1A and elsewhere in our Annual Report on Form 10-K and in other reports we file with the SEC.

On February 23, 2017, Aspire Capital purchased 20,000 shares of Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

#### *Liquidity*

As the Company seeks to expand and fund operations and begin commercialization of its product, the Company plans to incur expenses of approximately \$5.93 million over the next twelve months. The budget estimate is subject to many variables, some of which are outside of the control of the Company and accordingly, may change.

If we are unable to generate enough working capital from our current financing agreement with Aspire Capital when needed or to secure additional sources of funding, it may be necessary to significantly reduce our current rate of spending, which may include a reduction in our operations, pilot programs and commercialization efforts. These events could prevent us from successfully executing our operating plan

#### *Recent Private Placements*

Between September 30, 2016, and March 20, 2017, the Company sold and issued an aggregate of 477,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to 13 accredited investors, for which it received gross cash proceeds of \$2,981,250. Five of the 13 accredited investors were affiliates of the Company and represented 70% of such cash proceeds.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") and are in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Consolidation**

The unaudited condensed consolidated financial statements include the accounts of the Company, an inactive parent company, and its wholly owned operating subsidiaries CNS California and NTC, which is a dormant company. There were no intercompany transactions to be eliminated on consolidation.



## **Use of Estimates**

The preparation of the unaudited 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, furniture and equipment, 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 March 31, 2017 cash exceeds the federally insured limit by \$1,504,400. 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 evaluates all of its agreements to determine if such instruments have derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a weighted average Black-Scholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. As of March 31, 2017, the Company did not have any derivative financial instruments.

## **Fair Value of Financial Instruments**

ASC 825-10 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, ASC 815-10 and ASC 815-40.

The Company adopted ASC 820-10 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. As at March 31, 2017, the Company did not identify any assets or liabilities that required presentation 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 which as of March 31, 2017 and September 30, 2016 are \$1,200 and \$1,200 respectively.

## **Furniture and Equipment**

Furniture and Equipment, which are recorded at cost, consist of office furniture, equipment and purchased intellectual property which are depreciated, or amortized in the case of the intellectual property, over their estimated useful life on a straight-line basis. The useful life of these assets is estimated to be between three and ten years. Depreciation and amortization on furniture and equipment, intellectual property and intangible assets for the six months ended March 31, 2017 and 2016 was \$18,100 and \$2,700 respectively. Accumulated depreciation and amortization at March 31, 2017 and 2016 was \$95,100 and \$74,900, respectively.

## **Long-Lived Assets**

As required by ASC 350-30 the Company reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. No impairment loss was recorded for the six- months ended March 31, 2017 and 2016.

The Company adopted Accounting standards update (“ASU”) 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The new guidance is intended to reduce the complexity and costs of the annual impairment test for indefinite-lived intangible assets by allowing companies to make a qualitative evaluation about the likelihood of impairment to determine whether it should perform a quantitative impairment test.

### **Intangible Assets**

Costs for software developed for internal use are accounted for through the capitalization of those costs incurred in connection with developing or obtaining internal-use software. Capitalized costs for internal-use software are included in intangible assets in the consolidated balance sheet. Capitalized software development costs are amortized over three years. Costs incurred during the preliminary project along with post-implementation stages of internal use computer software development and costs incurred to maintain existing product offerings are expensed as incurred. The capitalization and ongoing assessment of recoverability of development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility and estimated economic life. At March 31, 2017, the Company had \$82,000 in capitalized software development costs. The Company started amortizing the software over its estimated economic life once it was placed into service in September 2016. For the six month ended March 31, 2017, the capitalized software amortization expense was \$13,400.

On November 23, 2011, the Company acquired intellectual property in the form of transcranial magnetic stimulation (TMS) biomarkers at a cost of \$21,200 which was recorded at cost and is being amortized over its estimated useful life of 10 years on a straight-line basis. Amortization for the six months ended March 31, 2017 and 2016 was \$1,100 for both periods. Accumulated depreciation on the intellectual property at was \$11,300 and \$9,200 at March 31, 2017 and 2016 respectively.

### **Accounts Payable**

Accounts payable consists of trade payables of which \$401,700 and \$405,700 are for legal services at March 31, 2017 and 2016 respectively.

### **Accrued Compensation**

Accrued compensation consists of accrued vacation pay, accrued bonuses granted by the Board but not paid, and accrued pay due to current and former staff members. The balance includes \$125,400 accrued for two managers and \$186,200 accrued for two officers who voluntarily deferred the cash portion of their salaries to help the Company conserve funds from February 2015 through July 2015. Accrued compensation also includes an accrual of \$250,000 for a tax gross-up on stock awarded to the Chairman of the Company.

### **Deferred Revenue**

Deferred revenue represents revenue collected but not earned as of March 31, 2017 and 2016. This represents a philanthropic grant for the payment of PEER Reports ordered in a clinical trial for a member of the U.S. Military, a veteran or their family members, the cost of which is not covered by other sources. These deferred revenue grant funds total \$45,900 for the periods ending March 31, 2017 and September 30, 2016.

### **Revenues**

The Company recognizes revenue on services, being the delivery of PEER Reports to medical providers, in accordance with the Financial Accounting Standards Board (“FASB”) ASC No. 605, “Revenue Recognition.” In all cases, revenue is recognized when we have persuasive evidence of an arrangement, a determinable fee, when collection is considered to be reasonably assured and the services have been 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. For the six months ended March 31, 2017 and 2016 advertising expenses were \$4,500 and \$45,000 respectively.

### **Stock-Based Compensation**

The Company has adopted ASC 718-20 and related interpretations which establish the accounting for equity instruments exchanged for employee services. Under ASC 718-20, share-based compensation cost to option grantee, being employees, directors and consultants, and is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the option grantees’ requisite service period, generally the vesting period of the award.

## **Income Taxes**

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded, when necessary, to reduce deferred tax assets to the amount expected to be realized.

As a result of the implementation of certain provisions of ASC 740, *Income Taxes*, which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. ASC 740 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company adopted the provisions of ASC 740 and have analyzed filing positions in each of the federal and state jurisdictions where required to file income tax returns, as well as all open tax years in these jurisdictions. We have identified the U.S. Federal and California as our "major" tax jurisdictions. Generally, we remain subject to Internal Revenue Service examination of our 2012 through 2015 U.S. federal income tax returns, and remain subject to California Franchise Tax Board examination of our 2011 through 2015 California Franchise Tax Returns. However, we have certain tax attribute carryforwards which will remain subject to review and adjustment by the relevant tax authorities until the statute of limitations closes with respect to the year in which such attributes are utilized.

We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740. In addition, we did not record a cumulative effect adjustment related to the adoption of ASC 740. Our policy for recording interest and penalties associated with income-based tax audits is to record such items as a component of income taxes.

## **Comprehensive Income (Loss)**

ASC 220-10 requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive income (loss) is the same as its reported net income (loss) for the three months and six months ended March 31, 2017 and 2016.

## **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.

## **Restatement of Prior Period**

The condensed consolidated financial statements for the Company's fiscal quarter ending December 31, 2016 were restated to reflect: (i) the proper accounting treatment of the issuance of Commitment Shares with Aspire Capital as offering costs netted against additional paid in capital as part of stockholders equity and to reverse the associated amortization expense recorded therewith, and (ii) the effect thereof on the Company's accompanying condensed consolidated financial statements, notes to the condensed consolidated financial statements and management's discussion and analysis. The incorrectly classified balance sheet item was non-cash in nature and the Company's original report did not overstate available cash and cash equivalents nor did it understate its losses for the period. In connection therewith, on March 30, 2017, the Company filed with the SEC a report on Form 8-K reporting the restatement, as well as Amendment No. 1 to its Quarterly Report on Form 10-Q for the fiscal quarter ending December 31, 2016.

## **Recent Accounting Pronouncements**

Apart from the below-mentioned recent accounting pronouncements, there are no new accounting pronouncements that are currently applicable to the Company.

In December 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230). Restricted Cash. This update clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires a reconciliation of totals in the statement of cash flows to the related cash and cash equivalents and restricted cash captions in the balance sheet. The new standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The update removes Step 2 from the goodwill impairment test. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating the effect that the updated standard will have on our financial statements.

### 3. STOCKHOLDERS' EQUITY

#### Common and Preferred Stock

At the Company's annual stockholders meeting held on October 28, 2015, ("2015 Stockholders Meeting") stockholders approved an amendment to the Company's Certificate of Incorporation (the "Charter") to increase the number of shares of Common Stock authorized for issuance from 180,000,000 to 500,000,000 shares.

Also at the Company's 2015 Stockholder Meeting, its stockholders approved an amendment to the Charter for the purposes of effecting a reverse Common Stock-split at a later time and at any time until the next meeting of the Company's stockholders which are entitled to vote on such actions, by a ratio of not less than 1-for-10 and not more than 1-for-200, and to authorize the Board of Directors ("Board") to determine, at its discretion, the timing of the amendment and the specific ratio of the reverse stock-split. On August 24, 2016, the Board approved a 1-for-200 reverse stock-split which was effected on September 21, 2016.

On September 20, 2016, the Company announced that on September 21, 2016 it had filed a Certificate of Amendment to its Charter (the "Amendment") to (i) effect a 1-for-200 reverse stock-split ("reverse split") of its Common Stock, effective at 8:00 a.m. Eastern Time on September 21, 2016 (the "Effective Time"). Because the Amendment did not reduce the number of authorized shares of Common Stock, 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 200 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.

As of March 31, 2017, the Company is authorized to issue 515,000,000 shares of stock, of which 500,000,000 are Common Stock; the remaining 15,000,000 shares, with a par value of \$0.001 per shares are blank-check preferred stock which the Board is expressly authorized to issue without stockholder approval, 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 March 31, 2017, 2,528,061 shares of Common Stock were issued and outstanding. No shares of preferred stock were issued or outstanding.

On January 15, 2016, the Company engaged Dian Griesel International (DGI) for a 12 month long consulting agreement to provide public and investor relations services. The fee for the services was \$5,000 per month, plus out-of-pocket expenses. As an origination fee for the agreement, the Board approved the issuance of 1,500 shares of common stock to Ms. Griesel on January 15, 2016. The aggregate value of these shares on the date of grant was \$6,900. The agreement with DGI was cancelled in May, 2016.

On April 5, 2016, the Board granted shares of Common Stock to Board members as follows: 5,000 shares to our Chairman, Dr. Smith, 2,500 shares to the Chairman of our Audit Committee, Mr. Harris and 1,250 shares to each of our remaining directors, Messrs. Pappajohn, Follman, McAdoo, Sassine and Votruba. Mr. Votruba's shares are assigned to RSJ Investments SICAV a.s. (formerly RSJ Private Equity investiční fond s proměnným základním kapitálem) ("RSJ") RSJ PE, where Mr. Votruba is Director for Life Sciences for the RSJ/Gradus Fund. These shares, which are fully vested, were valued at \$5.10 per share, the closing price of the shares on the day of grant, and were valued in aggregate at \$70,100.

Also on April 5, 2016, the Board granted 5,000 shares of Common Stock to each of the two officers of the Company, George Carpenter, CEO and Paul Buck, its former CFO. The shares vest as follows: 50% vested on the date of grant and the remaining 50% vest pro rata over twelve months starting on the date of grant. These shares were valued at \$5.10 per share, the closing price of the shares on the date of grant, and were valued in aggregate at \$51,000. 50% of the value was expensed on the date of grant and remaining 50%, \$25,500, was booked as a prepaid expense and is being amortized evenly over the twelve month vesting period. At March 31, 2017 the prepaid is fully amortized.

On January 18, 2017, the Company engaged Consulting for Strategic Growth 1, Ltd ("CSG") for a 6-month long consulting agreement to provide investor relations services. The monthly fee for the services was comprised of \$4,000, reimbursement for out-of-pocket expenses, and an aggregate of 2,500 shares of Common Stock. On March 15, 2017, the contract with CSG was amended to waive two months of consulting fees, and to cap at the total number of shares of Common Stock payable thereunder at 10,000. The aggregate value of shares issued to CSG on the grant dates of January 18, 2017 and March 15, 2017 were 7,500 and 2,500 shares valued at \$9.00 and \$7.60 per share for a total of \$67,500 and \$19,000 respectively.

### *Conversion of Notes and Cancellation of Warrants*

On September 19, 2016, the Company entered into the Second Omnibus Amendment (the "Second Omnibus Amendment"), with a majority of over 80% of the holders of certain convertible notes issued between September 2014 and August 2016 in aggregate principal amount of \$6,000,000 (the "Notes"), thereby amending: (i) the Notes, (ii) that certain second amended and restated note and warrant purchase agreement dated as of December 23, 2015, as thereafter amended and (iii) the warrants ("Warrants") issued in connection with the Notes. Pursuant to the Second Omnibus Amendment, the Company had the option, exercisable at any time after September 1, 2016, to mandatorily convert all Notes into shares of the Company's common stock at \$5.00 per share. The Company exercised its mandatory conversion right on September 19, 2016 and, on September 21, 2016, (i) converted the entire outstanding \$6,000,000 principal balance of the Notes, plus accrued interest of \$317,000 thereon, into an aggregate of 1,263,406 shares of the Company's common stock at a conversion price of \$5.00 per share, and (ii) cancelled all Warrants (*for details refer to Note 3. The Convertible Debt and Equity Financing of Form 10-K filed with the SEC on December 22, 2016*).

### *Private Placement of Common Stock*

On November 30, 2016, the Company sold and issued an aggregate of 160,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to six accredited investors, for which it received gross cash proceeds to the Company of \$1,000,000. Three of the six accredited investors are affiliates of the Company, and represented 50% of the cash proceeds as follows: Dr. Robin Smith, our Chairman of the Board purchased 16,000 shares for \$100,000; John Pappajohn, a member of the Board, purchased 32,000 shares for \$200,000; and the Tierney Family Trust, of which our Board member, Thomas Tierney is a trustee, purchased 32,000 shares for \$200,000.

On December 21, 2016, the Company sold and issued an additional 48,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to four accredited investors, for which it received gross cash proceeds to the Company of \$300,000.

On December 29, 2016, the Company sold and issued an additional 32,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to two accredited investors, resulting in gross cash proceeds to the Company of \$200,000, in which one investor, John Pappajohn, a member of the Board, purchased 16,000 shares for \$100,000.

From February 10, 2017 through March 21, 2017, the Company sold and issued an additional 237,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to four affiliated and accredited investors, resulting in gross cash proceeds to the Company of \$1,481,250. The affiliated investors were as follows: RSJ, purchased 160,000 shares for \$1,000,000; John Pappajohn, a member of the Board, purchased 72,000 shares for \$450,000; Geoffrey Harris is a member of the Board purchased 5,000 shares for \$31,250. RSJ is a greater than 10% stockholder of the Company and Michal Votruba, who serves as a Director for Life Sciences at the RSJ/Gradus Fund, has served as a member of our Board since July 30, 2015. The subscription agreement between the Company and RSJ provided for the grant to RSJ by the Company of a right of first refusal through June 30, 2018, to license or to have distribution rights in Europe with respect to any of the Company's technology and/or intellectual property.

These private placements were made pursuant to an exemption from registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Regulation D thereunder.

### *The Aspire Capital Equity Line of Credit*

On December 6, 2016, the Company, entered into a common stock Purchase agreement (the "Purchase Agreement") with Aspire Capital Fund, LLC ("Aspire Capital") which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company's common stock over the 30-month term of the Purchase Agreement. In consideration for entering into the Purchase Agreement, concurrently with the execution of the Purchase Agreement, the Company issued to Aspire Capital 80,000 shares of the Company's common stock. See *Note 1, Nature of Operations— "Aspire Capital Equity Line"*, for additional detail.

On February 23, 2017, pursuant to a purchase notice issued by the Company to Aspire Capital pursuant to the Purchase Agreement, Aspire Capital purchased 20,000 shares of Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

The issuance of shares of common stock that may be issued from time to time to Aspire Capital under the Purchase Agreement are exempt from registration under the Securities Act, pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act.

## **Stock-Option Plans**

### *2006 Stock Incentive 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. A total of 3,339 shares of stock were ultimately reserved for issuance under the 2006 Plan. As of March 31, 2017, there were 2,199 options shares outstanding under the amended 2006 Plan with a residual 754 shares which will not be issued as the 2006 Plan t. The outstanding options have exercise prices to purchase shares of Common Stock ranging from \$2,400 to \$6,540 with an average exercise price of \$4,090.



## *2012 Omnibus Incentive Compensation Plan*

On March 22, 2012, our Board approved the MYnd Analytics, Inc. 2012 Omnibus Incentive Compensation Plan (the "2012 Plan"), reserved 1,667 shares of stock for issuance and on December 10, 2012, the Board approved the amendment of the 2012 Plan to increase the shares authorized for issuance from 1,667 shares to 27,500 shares. On March 26, 2013, the Board further approved the amendment of the 2012 Plan to increase the shares authorized for issuance from 27,500 shares to 75,000 shares. The 2012 Plan, as amended, was approved by our stockholders at the 2013 annual meeting held on May 23, 2013.

On April 5, 2016, the Board approved a further amendment of the 2012 Plan to increase the Common Stock authorized for issuance from 75,000 shares to 200,000 shares.

On April 5, 2016, the Board granted options to purchase 7,250 shares of Common Stock under the 2012 Plan to staff members and options to purchase 1,000 shares of Common Stock to our consultant, DCA. These options vest pro-rata over 12 months starting on the date of grant and have an exercise price of \$5.10 per share, which was the closing price on the OTC.QB of the Company's Common Stock on the date of grant.

On September 22, 2016 the Board amended the 2012 Plan to: (i) increase the total number of shares of Common Stock available for grant under the 2012 Plan from 200,000 shares to an aggregate of 500,000 shares, (ii) add an "evergreen" provision which, on January 1<sup>st</sup> of each year through 2022, automatically increases the number of shares subject to the 2012 Plan by the lesser of: (a) a number equal to 10% of the shares of Common Stock authorized under the 2012 Plan as of the preceding December 31st, or (b) an amount, or no amount, as determined by the Board, but in no event may the number of shares of Common Stock authorized under the 2012 Plan exceed 885,781 and (iii) increase the annual individual award limits under the 2012 Plan to 100,000 shares of Common Stock, subject to adjustment in accordance with the 2012 Plan. These amendments to the 2012 Plan were approved by our stockholders at the Annual Meeting held on November 1, 2016.

On September 22, 2016, the Board granted options to purchase 144,000 shares of Common Stock under the 2012 Plan at an exercise price of \$6.00 to certain directors and officers as follows:

- our Chairman Dr. Smith was granted options to purchase 40,000 shares of Common Stock a portion of which vest in accordance with the satisfaction of certain performance criteria;
- our CEO, George Carpenter, was granted options to purchase 32,000 shares of Common Stock some of which vested as follows: (a) 25% vested on the date of grant, (b) 25% vested on the date that we received CNS approval to bill Medicare, (c) 25% vested upon signing a multi-practitioner group to use our PEER technology, and (d) 25% will vest upon signing a healthcare system to use our PEER technology;
- our former CFO, Paul Buck, was granted options to purchase 32,000 shares of Common Stock some of which vested as follows: (a) 25% vested on the date of grant, (b) 25% vested on the date that we received CNS approval to bill Medicare, (c) 25% will vest upon signing a healthcare system to use our PEER technology and (d) 25% will vest upon up-listing to an exchange in 1 year;
- two of our outgoing directors, Mr. McAdoo and Mr. Sassine, were each granted 20,000 fully vested options to purchase Common Stock, these options have an exercised period of 12 months from the date of issuance.

On September 22, 2016, pursuant to the 2012 Plan, the Board granted shares of Common Stock to Board members as follows: 40,000 shares to our Chairman, Dr. Smith, and 20,000 shares to each of our directors, Messrs. Pappajohn, Follman, Harris and Votruba. Mr. Votruba's shares are assigned to RSJ. These shares, which are fully vested, were valued at \$6.00 per share, the closing price of the shares on the day of grant, and were valued in aggregate at \$720,000. Our outgoing directors, Mr. McAdoo and Mr. Sassine were offered stock, however, elected to each receive 20,000 fully vested options to purchase shares of Common Stock.

On September 29, 2016, pursuant to the 2012 Plan, the Board granted 20,000 fully vested shares of Common Stock to Thomas Tierney who rejoined the Board. These shares were valued at \$6.00 per share, the closing price of the shares on the day of grant, and were valued in aggregate at \$120,000.

The stock grants on September 22 and 29, 2016, which combined are valued in aggregate at \$840,000 are being amortized over the 12-month period that directors are anticipated to serve until the next annual meeting. For the six-months ended March 31, 2017, \$490,000, representing seven months of amortization, had been expensed leaving \$350,000 as a prepaid expense.

On October 2, 2016, the Compensation Committee of the Board granted options to purchase 102,000 shares of the Company's Common Stock under the 2012 Plan to staff members. These options vest pro-rata over 12 months starting on the date of grant. The grants of options to staff are valued \$6.00 per share, which was the closing price on the OTC.QB of the Company's Common Stock on the date of grant.

On February 16, 2017, the Compensation Committee of the Board granted options to purchase 5,000 shares of the Company's Common Stock under the 2012 Plan to a staff member. These options vest pro-rata over 36 months starting on the date of grant. The grants of options to staff are valued \$7.25 per share, which was the closing price on the OTC.QB of the Company's Common Stock on the date of grant.

On March 31, 2017, the Compensation Committee of the Board granted options to our Chief Financial Officer Mr. D'Ambrosio to purchase 18,000 shares of the Company's common stock at an exercise price of \$5.90 per share, which was the closing price on the OTC.QB of the Company's Common Stock on the date of grant, with: (i) the option to purchase 15,000 shares vesting in equal monthly installments over 36 months from March 31, 2017, and (ii) the option to purchase 3,000 shares vesting upon the Company's successful listing of its common stock on a national securities exchange.

As of March 31, 2017, options to purchase 345,896 shares of Common Stock were outstanding under the 2012 Plan with exercise prices ranging from \$5.10 to \$600, with a weighted average exercise price of \$8.94. Additionally, 143,750 restricted shares of Common Stock have been issued under the 2012 Plan, leaving 60,354 shares of Common Stock available to be awarded. Per the abovementioned "evergreen" provision, an additional 50,000 shares were automatically allocated for distribution under the 2012 Plan as of January 1, 2017.

Stock-based compensation expenses are generally recognized over the employees' or service provider's requisite service period, generally the vesting period of the award. Stock-based compensation expense included in the accompanying statements of operations for the year ended March 31, 2017 and 2016 is as follows:

|                            | For the three months ended<br>March 31 |                  |
|----------------------------|----------------------------------------|------------------|
|                            | 2017                                   | 2016             |
| Research                   | \$ 2,200                               | \$ 10,400        |
| Product Development        | 93,000                                 | 7,700            |
| Sales and marketing        | 24,400                                 | 14,900           |
| General and administrative | 62,100                                 | 7,200            |
| <b>Total</b>               | <b>\$ 181,700</b>                      | <b>\$ 40,200</b> |

|                            | For the six months ended<br>March 31 |                  |
|----------------------------|--------------------------------------|------------------|
|                            | 2017                                 | 2016             |
| Research                   | \$ 8,700                             | \$ 20,800        |
| Product Development        | 190,400                              | 16,800           |
| Sales and marketing        | 46,900                               | 14,900           |
| General and administrative | 216,700                              | 18,400           |
| <b>Total</b>               | <b>\$ 462,700</b>                    | <b>\$ 70,900</b> |

Total unrecognized compensation as of March 31, 2017 amounted to \$466,200.

A summary of stock option activity is as follows:

|                                   | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|-----------------------------------|---------------------|---------------------------------------|
| Outstanding at September 30, 2016 | 223,120             | \$ 50.98                              |
| Granted                           | 102,000             | 6.00                                  |
| Exercised                         | -                   | -                                     |
| Forfeited                         | (25)                | 1,800.00                              |
| Outstanding at December 31, 2016  | 325,095             | \$ 36.74                              |
| Granted                           | 23,000              | 6.19                                  |
| Exercised                         | -                   | -                                     |
| Forfeited                         | -                   | -                                     |
| Outstanding at March 31, 2017     | 348,095             | \$ 34.72                              |



Following is a summary of the status of options outstanding at March 31, 2017:

| Exercise Price (\$)                             | Number of Shares | Expiration Date   | Weighted Average Exercise Price (\$) |
|-------------------------------------------------|------------------|-------------------|--------------------------------------|
| <b>2012 Omnibus Incentive Compensation Plan</b> |                  |                   |                                      |
| \$ 5.10                                         | 8,250            | 04/2026           | \$ 5.10                              |
| 5.90                                            | 18,000           | 03/2027           | 5.90                                 |
| 6.00                                            | 246,000          | 09/2026 – 10/2026 | 6.00                                 |
| 7.25                                            | 5,000            | 02/2017           | 7.25                                 |
| 11.00                                           | 8,750            | 08/2025           | 11.00                                |
| 9.44                                            | 43,978           | 12/2022 – 01/2023 | 9.44                                 |
| 50.00                                           | 13,577           | 03/2023 – 01/2025 | 50.00                                |
| 52.00                                           | 2,125            | 07/2024           | 52.00                                |
| 600.00                                          | 216              | 03/2022           | 600.00                               |
| <b>Total 2012 Plan</b>                          | <b>345,896</b>   |                   | <b>\$ 8.94</b>                       |
| <b>2006 Stock Incentive Plan</b>                |                  |                   |                                      |
| \$ 2,400.00                                     | 144              | 03/2019 – 07/2020 | \$ 2,400.00                          |
| 2,820.00                                        | 51               | 03/2021           | 2,820.00                             |
| 3,060.00                                        | 7                | 09/2018           | 3,060.00                             |
| 3,300.00                                        | 1,325            | 03/2020           | 3,300.00                             |
| 4,800.00                                        | 24               | 12/2017           | 4,800.00                             |
| 5,340.00                                        | 162              | 09/2017           | 5,340.00                             |
| 5,760.00                                        | 61               | 04/2018           | 5,760.00                             |
| 6,540.00                                        | 425              | 08/2017           | 6,540.00                             |
| <b>Total 2006 Plan</b>                          | <b>2,199</b>     |                   | <b>\$ 4,090.26</b>                   |
| <b>Total options outstanding</b>                | <b>348,095</b>   | <b>Average</b>    | <b>\$ 34.72</b>                      |

#### Warrants to Purchase Common Stock

The warrant activity for the period starting October 1, 2016, through March 31, 2017, is described as follows:

|                                   | Number of Shares | Weighted Average Exercise Price |
|-----------------------------------|------------------|---------------------------------|
| Outstanding at September 30, 2016 | 7,160            | \$ 50.41                        |
| Granted                           | -                | -                               |
| Exercised                         | -                | -                               |
| Expired                           | (14)             | 200.00                          |
| Forfeited                         | -                | -                               |
| Outstanding at December 31, 2016  | 7,146            | \$ 50.12                        |
| Granted                           | -                | -                               |
| Exercised                         | -                | -                               |
| Expired                           | (251)            | 103.78                          |
| Forfeited                         | -                | -                               |
| Outstanding at March 31, 2017     | 6,895            | \$ 48.17                        |

Following is a summary of the status of warrants outstanding at March 31, 2017:

| Exercise Price | Number of Shares | Expiration Date   | Weighted Average Exercise Price |
|----------------|------------------|-------------------|---------------------------------|
| \$ 9.44        | 191              | 03/2018           | \$ 9.44                         |
| 10.00          | 4,000(1)         | 06/2021           | 10.00                           |
| 50.00          | 1,000            | 07/2017           | 50.00                           |
| 55.00          | 1,620            | 06/2018 – 03/2019 | 55.00                           |
| 1,800.00       | 84               | 07/2017           | 1,800.00                        |
| \$ Total       | <b>6,895</b>     |                   | <b>\$ 48.17</b>                 |

(1) On June 10, 2016, we issued two warrants, pursuant to a Finder's Fee Agreement with Maxim Group LLC, to purchase in aggregate 4,000 shares of Common Stock following the introduction of an accredited investor who entered into a Second Amended Note and Warrant Purchase Agreement in the principal amount of \$200,000. Each warrant is exercisable, in whole or in part, during the period beginning on the date of its issuance, and ending on the earlier of (i) December 31, 2020 and (ii) the date that is forty-five (45) days following the date on which the daily closing price of shares of the Company's Common Stock quoted on the OTCQB Venture Marketplace (or other bulletin board or exchange on which the Company's Common Stock is traded or listed) exceeds \$50.00 for at least ten (10) consecutive trading days. Pursuant to the Finder's Fee Agreement, Maxim was also paid \$20,000 cash for their efforts.

At March 31, 2017, there were warrants outstanding to purchase 6,895 shares of the Company's Common Stock. The exercise prices of the outstanding warrants range from \$9.44 to \$1,800 with a weighted average exercise price of \$48.17. The warrants expire at various times starting 2017 through 2021.

#### 4. RELATED PARTY TRANSACTIONS

##### *Notes: Conversion of Notes*

Between September 22, 2014, and August 16, 2016, the Company raised an aggregate principal amount of \$6.0 million in Notes, which along with of \$317,000 of interest thereon, were converted on September 21, 2016 into 1,263,406 shares of Common Stock at \$5.00 per share. Of the \$6.0 million of Notes sold by the Company, \$5.3 million were purchased by directors, an officer and greater than 5% shareholders of the Company and converted into shares as follows.

|                      |     | <b>Principal Investment<br/>in Convertible Notes</b> | <b>Interest Earned<br/>At conversion</b> | <b>Shares Issued<br/>on conversion</b> |
|----------------------|-----|------------------------------------------------------|------------------------------------------|----------------------------------------|
| RSJ                  | (1) | \$ 2,100,000                                         | 122,200                                  | 444,454                                |
| John Pappajohn       | (2) | 1,600,000                                            | 52,500                                   | 290,498                                |
| Tierney Family Trust | (3) | 640,000                                              | 46,600                                   | 137,328                                |
| Follman Family Trust | (4) | 550,000                                              | 20,400                                   | 114,074                                |
| Robin Smith MD       | (5) | 100,000                                              | 3,900                                    | 20,776                                 |
| Geoffrey Harris      | (6) | 10,000                                               | 300                                      | 2,058                                  |
| George Carpenter     | (7) | 100,000                                              | 1,300                                    | 20,254                                 |
| Oman Ventures        | (8) | 200,000                                              | 20,400                                   | 44,089                                 |
|                      |     | <u>\$ 5,300,000</u>                                  | <u>267,600</u>                           | <u>1,073,531</u>                       |

- (1) RSJ is a greater than 10% shareholder. Michal Votruba, a Director for Life Sciences for the RSJ/Gradus Fund, joined our Board on July 30, 2015.
- (2) John Pappajohn is a member of the Board. He purchased \$1,600,000 of Notes of which \$200,000 were assigned to four accredited investors on September 6, 2015. Approximately \$10,400 of the total interest was attributable to such transferred Notes, resulting in an aggregate of 42,084 shares being issued upon the conversion of such transferred Notes.
- (3) Thomas Tierney is a trustee of the Tierney Family Trust. Mr. Tierney originally joined the Board on February 25, 2013 and served as Chairman of the Board from March 26, 2013 through his resignation on May 22, 2015. On September 29, 2016 Mr. Tierney rejoined the Board. The Tierney Family Trust is a greater than 5% shareholder of the Company.
- (4) Robert Follman is a trustee of the Follman Family Trust and is a member of the Board.
- (5) Dr. Robin Smith is the Chairman of the Board.
- (6) Geoffrey Harris is a member of the Board and Chairman of the Audit Committee.
- (7) George Carpenter is the CEO of the Company.
- (8) Mark & Jill Oman are the beneficial owners of Oman Ventures and were greater than 5% shareholders of the Company.

##### *Cancellation of Warrants*

In connection with the issuance of Notes, the Company also issued Warrants to the purchasers of the Notes, including the affiliates referenced above under "*Notes; Conversion of Notes*". Upon conversion of the Notes on September 21, 2016, the Company also cancelled all Warrants issued in connection with such Notes. See *Note 3, Stockholders Equity—Common and Preferred Stock— Conversion of Notes and Cancellation of Warrants*", for additional detail.

##### *Director and Officer Indemnification Agreement*

On December 7, 2015, the Company entered into indemnification agreements with each of its Directors and Executive Officers. The agreements provide for, among other things: the indemnification of these Directors and Officers by the Company to the fullest extent permitted by the laws of the State of Delaware; the advancement to such persons by the Company of certain expenses; related procedures and presumptions of entitlement; and other related matters.

##### *Transactions with RSJ, Greater than 5% Stockholder*

RSJ participated in the Convertible Debt Financing. Please see "*Issuance and Mandatory Conversion of Senior Convertible Notes*" and "*Cancellation of Warrants*" above for more information.

On March 20, 2017, the Company entered into a subscription agreement (the "Subscription Agreement") pursuant to which it sold and issued an aggregate of 160,000 shares of Common Stock, at a price of \$6.25 per share, in a private placement to RSJ, for which the Company received gross cash proceeds of \$1,000,000. RSJ is a greater than 10% shareholder. Michal Votruba, a Director for Life Sciences for the RSJ/Gradus Fund, joined our Board on July 30, 2015. Pursuant to the Subscription Agreement, the private placement is not subject to a minimum or maximum amount, and the Company cannot provide any assurances that it will receive any additional amount of proceeds in the private placement. The subscription also provided for the grant to RSJ by the Company of a right of first refusal through June 30, 2018, to license or to have distribution rights in Europe with respect to any of the Company's technology and/or intellectual property.

*Transactions with John Pappajohn, Director*

On November 30, 2016, December 29, 2016, February 10, 2017 and March 21, 2017 the Company sold and issued in aggregate 120,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to Mr. Pappajohn, who purchased common stock for \$200,000, \$100,000, \$200,000 and \$250,000 respectively resulting in gross cash proceeds to the Company of \$750,000.

*Transactions with George Carpenter, President and Chief Executive Officer*

On September 25, 2013, the Board approved a consulting agreement effective May 1, 2013, for marketing services provided by Decision Calculus Associates, an entity operated by Mr. Carpenter's spouse, Jill Carpenter. Effective August 2015, DCA was engaged at a fee of \$10,000 per month. From August 2015 through March 31, 2017, DCA has been paid \$170,000 with a further \$3,000 balance due in accounts payable. The Decision Calculus Associates contract ended December 31, 2016. A new contract commenced March 1, 2017, DCA was engaged at a fee of \$3,000 per month.

*Transactions with Tierney Family Trust, Greater than 5% Stockholder*

Mr. Tierney rejoined the Board as a Director on September 29, 2016. Mr. Tierney is a trustee of the Thomas T. and Elizabeth C. Tierney Family Trust (the "Tierney Family Trust"), which is a greater than 5% stockholder.

On November 30, 2016, the Company sold and issued 32,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to the Tierney Family Trust, resulting in gross cash proceeds to the Company of \$200,000.

*Transactions with Robin Smith MD, Chairman of the Board*

On November 30, 2016, the Company sold and issued a 16,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to Dr. Smith resulting in gross cash proceeds to the Company of \$100,000.

*Transactions with Geoffrey E. Harris, Director*

On March 3, 2017, the Company sold and issued a 5,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to Mr. Harris resulting in gross cash proceeds to the Company of \$31,250.

*Transactions with Donald D'Ambrosio, CFO*

On March 14, 2017, the Company and Mr. Donald E. D'Ambrosio entered into a letter agreement of employment setting forth Mr. D'Ambrosio's compensation and certain other employment terms. Mr. D'Ambrosio was named the Company's Chief Financial Officer and Secretary, effective March 31, 2017. For more details regarding Mr. D'Ambrosio's employment agreement please refer to the Company's Form 8-K filed on April 3, 2017.

On March 31, 2017, Mr. Paul Buck retired as the Company's Chief Financial Officer and Secretary. Mr. Buck indicated his intention to remain with the company as a consultant pursuant to the terms of a separation agreement. For more details of Mr. Buck's separation agreement, please refer to the Company's Form 8-K filed on April 25, 2017.

## **5. 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-month and six-month periods ended March 31, 2017 and 2016, the Company has excluded all common equivalent shares from the calculation of diluted net loss per share as such securities are anti-dilutive.

A summary of the net income (loss) and shares used to compute net income (loss) per share for the three-month and six-month periods ended March 31, 2017 and 2016 is as follows:

|                                                                                                        | <b>Three months ended<br/>March 31,</b> |              |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------|--------------|
|                                                                                                        | 2017                                    | 2016         |
| Net Loss for computation of basic and diluted net loss per share:                                      |                                         |              |
| Net loss                                                                                               | \$ (1,452,000)                          | \$ (142,700) |
| Basic and Diluted net loss per share:                                                                  |                                         |              |
| Basic net loss per share                                                                               | \$ (0.61)                               | \$ (0.28)    |
| Basic and Diluted weighted average shares outstanding                                                  | 2,372,394                               | 513,345      |
| Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share: |                                         |              |
| Convertible debt                                                                                       | -                                       | 416,358      |
| Warrants                                                                                               | 7,032                                   | 404,694      |
| Options                                                                                                | 334,428                                 | 71,150       |

|                                                                                                        | <b>Six months ended<br/>March 31,</b> |                |
|--------------------------------------------------------------------------------------------------------|---------------------------------------|----------------|
|                                                                                                        | 2017                                  | 2016           |
| Net Loss for computation of basic and diluted net loss per share:                                      |                                       |                |
| Net loss                                                                                               | \$ (2,892,200)                        | \$ (3,594,000) |
| Basic and Diluted net loss per share:                                                                  |                                       |                |
| Basic net loss per share                                                                               | \$ (1.29)                             | \$ (7.01)      |
| Basic and Diluted weighted average shares outstanding                                                  | 2,236,728                             | 512,716        |
| Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share: |                                       |                |
| Convertible debt                                                                                       | -                                     | 366,170        |
| Warrants                                                                                               | 7,093                                 | 219,461        |
| Options                                                                                                | 329,766                               | 71,150         |

## 6. 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. 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.

### *Lease Commitments*

The Company's Headquarters and Neurometric Services business is located at 26522 La Alameda, Suite 290, Mission Viejo, CA 92691, which is 2,290 sqft in size. The lease period commenced on February 1, 2016 and terminates on January 31, 2018. The rent for the first four months was \$2,290 per month, which is abated by 50%; for months 5 through 12 the rent increased to \$4,580 per month and for the final 12 months the rent will increase by 5% to \$4,809 per month.

On February 2, 2016, we signed a 23.5 month lease for 1,092 sqft of office space to house our EEG testing center. The premises are located at 25201 Paseo De Alicia, Laguna Hills, CA 92653. The lease period commenced on February 15, 2016 and terminates on January 31, 2018. The rent for first half month of February was prorated at \$928.20; for the next 11 months the rent was \$1,856 per month, and for the remaining twelve months the rent will increase by 3% to \$1,911 per month. The landlord abated the rent for March 2016 and will apply \$1,911 of the security deposit on account against the base rent due for February 2017.

The Company incurred rent expense for operations of \$36,500 and \$28,400 for the six months ended March 31, 2017 and 2016, respectively.

On January 20, 2016, we entered into a financial lease to acquire a Canon Copier costing \$6,700. The term of the lease is 60 months ending January 2021 with a monthly payment of \$135. As of March 31, 2017 the remaining principal lease obligation is \$6,200, of which \$1,200 is due in fiscal 2017, \$1,600 is due per year for the years 2018-2020; and \$600 due in 2021.

| Contractual Obligations     | Payments due by period |                  |                  |              |                   |
|-----------------------------|------------------------|------------------|------------------|--------------|-------------------|
|                             | Total                  | Less than 1 year | 1 to 3 years     | 3 to 5 years | More than 5 years |
| Operating Lease Obligations | \$ 67,200              | \$ 40,400        | \$ 26,800        | -            | -                 |
| Capital Lease Obligations   | 6,200                  | 800              | 4,800            | 600          | -                 |
| <b>Total</b>                | <b>\$ 73,400</b>       | <b>\$ 41,200</b> | <b>\$ 31,600</b> | <b>600</b>   | <b>-</b>          |

## 7. SUBSEQUENT EVENTS

Events subsequent to March 31, 2017 have been evaluated through the date that these financial statements were issued in order to determine whether any events should be disclosed to keep the financial statements from being misleading. The following events have occurred since March 31, 2017.

On April 1, 2017, the Company entered into a Master Purchase and Option Agreement with Arcadian Telepsychiatry LLC ("Arcadian"), a Pennsylvania based limited liability company and Mr. Robert Plotkin, who, prior to the transaction, was the sole member and owned 100% of the membership interests in Arcadian. The Company made a \$100,000 capital contribution to Arcadian and issued 1,000 shares of Common Stock to Mr. Plotkin for a membership interest equal to 10% of the outstanding membership interests, together with any and all rights, privileges and interests in Arcadian resulting from, associated with or arising from the purchased membership interests. The value of the shares of Common Stock issued on the date of the grant on April 1, 2017, was 1,000 shares valued at \$5.90 per share for a total of \$5,900.

On April 19, 2017, the Company engaged AI & J Media, Inc. for a 3-month long consulting agreement to provide media advertising services. The monthly fee for the services will be \$10,000 and 5,000 shares of Common Stock.

On April 24, 2017, Mr. Buck (the Company's former CFO) and the Company entered into a Confidential Employment Separation and Release Agreement (the "Separation Agreement"). Pursuant to the Separation Agreement, the Company agreed to pay Mr. Buck an aggregate amount of \$105,333, which consists of \$32,000 in accrued paid time off and \$73,333 (less lawful deductions) in accrued pay that was voluntarily deferred by Mr. Buck between February 16, 2015 and July 31, 2015.

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

*The following discussion and analysis of our financial condition and results of operation should be read in conjunction with our unaudited condensed consolidated financial statements as of, and for, the three and six months ended March 31, 2017 and 2016, and our Annual Report on Form 10-K for the year ended September 30, 2016, filed with the U.S. Securities and Exchange Commission on December 22, 2016.*

### Forward-Looking Statements

*This discussion summarizes the significant factors affecting the unaudited condensed consolidated operating results, financial condition and liquidity and cash flows of MYnd Analytics, Inc. (“we,” “us,” “our,” or the “Company”) for the three and six months ended March 31, 2017 and 2016. Except for historical information, the matters discussed in this management’s discussion and analysis or plan of operation and elsewhere in this Quarterly Report on Form 10-Q are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding proposed new products or services; our statements concerning litigation or other matters; statements concerning projections, predictions, expectations, estimates or forecasts for our business, financial and operating results and future economic performance; statements of management’s goals and objectives; trends affecting our financial condition, results of operations or future prospects; our financing plans or growth strategies; and other similar expressions concerning matters that are not historical facts. Words such as “may,” “will,” “should,” “could,” “would,” “predicts,” “potential,” “continue,” “expects,” “anticipates,” “future,” “intends,” “plans,” “believes” and “estimates,” and similar expressions, as well as statements in future tense, identify forward-looking statements.*

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

- our inability to raise additional funds to support operations and capital expenditures;*
- our inability to achieve greater and broader market acceptance of our products and services in existing and new market segments;*
- our inability to successfully compete against existing and future competitors;*
- our inability to manage and maintain the growth of our business;*
- our inability to protect our intellectual property rights; and*
- other factors discussed under the headings “Risk Factors” and “Business” in our Annual Report on Form 10-K for the year ended September 30, 2016 and this Quarterly Report on Form 10-Q.*

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

### Overview

MYnd Analytics, Inc. (“we,” “us” or the “Company”), is a predictive analytics company that has developed a decision support tool to help physicians reduce trial and error treatment in mental health and provide more personalized care to patients. We provide objective clinical decision support to healthcare providers for the personalized treatment of behavioral disorders, including depression, anxiety, bipolar disorder, post-traumatic stress disorder (“PTSD”) and other non-psychotic disorders. We use our proprietary neurometric platform, PEER Online, to generate Psychiatric EEG Evaluation Registry (“PEER”) Reports to predict the likelihood of response by an individual to a range of medications prescribed for the treatment of behavioral disorders. We will continue to be focused on military personnel and their family members who are suffering from depression, PTSD and mild traumatic brain injury (“mTBI”) through the military and veterans, and Canadian Armed Forces, expand commercially through the payer and self-insured markets, multi-physician and multi-practice provider groups as well as direct to consumer sales and seek to expand our data base in younger adults and adolescents.

## Working Capital

Since our inception, we have never been profitable and we have generated significant net losses. As of March 31, 2017, we had an accumulated deficit of approximately \$71.4 million; at our fiscal year ended September 30, 2016, our accumulated deficit was \$68.5 million and as of March 31, 2016, we had an accumulated deficit of approximately \$66.2 million. We incurred operating losses of \$2.9 million and \$1.3 million for the six month periods ended March 31, 2017 and 2016, respectively, and incurred net losses of \$2.9 million and \$3.6 million for those respective periods. Large, non-cash, accounting transactions significantly impacted the net losses for the 2016 period.

For the six-month period ended March 31, 2016, our net loss was exacerbated by non-cash charges totaling approximately \$2.3 million as a result of accounting for the extinguishment of debt, non-cash interest and derivative liability transactions. These non-cash charges are primarily the result of amendments to the terms of our convertible notes payable along with the issuance of warrants pursuant to our fund raising. For the six-month period ended March 31, 2017, other expenses were a more moderate at \$3,900, consisting largely of non-cash financing expenses.

We anticipate that a substantial portion of any capital resources and efforts would be focused on conducting our clinical trials, the scale-up of our commercial sales organization, further research, product development and other general corporate purposes, including accrued but unpaid expenses. We also anticipate that some future research and development projects would be funded by grants or third-party sponsorship, along with funding by the Company.

As of March 31, 2017, our current assets of approximately \$2.3 million exceeded our current liabilities of approximately \$1.9 million by approximately \$0.35 million. Whereas, at March 31, 2016, our current liabilities of \$1.67 million exceeded our current assets of \$0.62 million by \$1.05 million, and at our fiscal year end, September 30, 2016, our current liabilities of \$1.54 million also exceeded our current assets of \$1.21 million by \$0.33 million. During six-month period ended March 31, 2017, we raised gross cash proceeds of \$3.0 million from private placements of Common Stock at \$6.25 per share. For details of these financings see "*Private Placement Transactions—Private Placement of Common Stock*" below.

On December 6, 2016, the Company, entered into a common stock purchase agreement (the "Purchase Agreement") with Aspire Capital Fund, LLC ("Aspire Capital") which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company's common stock over the 30-month term of the Purchase Agreement. For details of the Purchase Agreement financing see "*Private Placement Transactions—The Aspire Capital Equity Line*" below.

On February 23, 2017, pursuant to a purchase notice issued by the Company to Aspire Capital pursuant to the Purchase Agreement, Aspire Capital purchased 20,000 shares of its Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

If we are unable to generate enough working capital from our current financing agreement with Aspire Capital when needed or to secure additional sources of funding, including revenue, strategic partnerships or investors, it may be necessary to significantly reduce our current rate of spending, which may include a reduction in our operations, pilot programs and commercialization efforts. These events could prevent us from successfully executing our operating plan.

We will need additional funding to conduct our planned clinical trials and to conduct marketing campaigns to significantly increase the demand for our PEER Online services. 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. 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.

## Private Placement Transactions

### *Private Placement & Conversion of Convertible Notes; Cancellation of Warrants*

On September 19, 2016, the Company entered into the Second Omnibus Amendment (the "Second Omnibus Amendment"), with a majority of over 80% of the holders of certain convertible notes issued between September 22, 2014 and August 16, 2016 in the aggregate principal amount of \$6,000,000 (the "Notes"), thereby amending: (i) the Notes, (ii) that certain second amended and restated note and warrant purchase agreement dated as of December 23, 2015, as thereafter amended and (iii) the warrants ("Warrants") issued in connection with the Notes. Pursuant to the Second Omnibus Amendment, the Company had the option, exercisable at any time after September 1, 2016, to mandatorily convert all Notes into shares of Common Stock at \$5.00 per share. The Company exercised its mandatory conversion right on September 19, 2016 and, on September 21, 2016, (i) converted the entire outstanding \$6,000,000 principal balance of the Notes, plus accrued interest of \$317,000 thereon, into an aggregate of 1,263,406 shares of the Company's common stock at a conversion price of \$5.00 per share, and (ii) cancelled all Warrants. Of the \$6.0 million Notes sold by the Company, \$5.3 million were purchased by directors, an officer and greater than 5% shareholders of the Company.

### *Private Placement of Common Stock*

On November 30, 2016, the Company sold and issued an aggregate of 160,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to six accredited investors, for which it received gross cash proceeds of \$1,000,000. Three of the six accredited investors were affiliates and represented 50% of the cash proceeds as follows: Dr. Robin Smith, our Chairman of the Board, purchased 16,000 shares for \$100,000; John Pappajohn, a member of the Board, purchased 32,000 shares for \$200,000; and the Tierney Family Trust, of which our Board member, Thomas Tierney is a trustee, purchased 32,000 shares for \$200,000. In connection with this private placement, certain investors (comprised of our executive officers, current and certain former directors) agreed to a 180-day “lock-up”, commencing on November 30, 2016, with respect to shares of Common Stock and other of our securities that they beneficially own, including securities that are convertible into shares of Common Stock and securities that are exchangeable or exercisable for shares of Common Stock. As a result, subject to certain exceptions, for a period of 180 days following November 30, 2016, such persons may not offer, sell, pledge or otherwise dispose of these securities without the Company’s prior written consent.

On December 21, 2016, and on December 29, 2016, the Company sold and issued an aggregate of 80,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to a total of six accredited investors, consisting of one of an affiliate and five investors who were new to the Company. The Company received gross cash proceeds of \$500,000. The affiliate investor was Mr. Pappajohn, a member of the Board, who purchased 16,000 shares for \$100,000.

From February 10, 2017 through March 21, 2017, the Company sold and issued an additional 237,000 shares of its Common Stock, at a per share price of \$6.25, in a private placement to four affiliated accredited investors, resulting in gross cash proceeds to the Company of \$1,481,250. The affiliated investors were as follows: RSJ PE a greater than 10% shareholder and where Mr. Votruba (a member of our Board) is Director for Life Sciences for the RSJ/Gradus Fund, purchased 160,000 shares for \$1,000,000; John Pappajohn, a member of the Board, purchased 72,000 shares for \$450,000; and Geoffrey Harris, a member of the Board purchased 5,000 shares for \$31,250, representing the aggregate gross proceeds to the Company. The subscription agreement between the Company and RSJ provided for the grant to RSJ by the Company of a right of first refusal through June 30, 2018, to license or to have distribution rights in Europe with respect to any of the Company’s technology and/or intellectual property.

### *The Aspire Capital Equity Line*

On December 6, 2016, the Company, entered into a common stock Purchase Agreement with Aspire Capital which is committed to purchase up to an aggregate of \$10.0 million of shares of Common Stock over the 30-month term of the Purchase Agreement which began on February 10, 2017. Concurrent with entering into the Purchase Agreement, the Company also entered into a registration rights agreement with Aspire Capital (the “Registration Rights Agreement”), pursuant to which the Company maintains an effective registration statement registering the sale of the shares of Common Stock that have been and may be issued to Aspire Capital under the Purchase Agreement.

Under the Purchase Agreement, upon the terms and subject to the conditions and limitations set forth therein, on any trading day selected by the Company on which the closing sale price of its Common Stock is equal to or greater than \$0.50 per share, the Company has the right, in its sole discretion, to present Aspire Capital with a purchase notice, directing Aspire Capital (as principal) to purchase up to 50,000 shares of Common Stock per business day, up to \$10.0 million of the Company’s common stock in the aggregate at a per share purchase price equal to the lesser of:

- a) the lowest sale price of Common Stock on the purchase date; or
- b) the arithmetic average of the three (3) lowest closing sale prices for Common Stock during the twelve (12) consecutive trading days ending on the trading day immediately preceding the purchase date.

In addition, on any date on which the Company submits a purchase notice to Aspire Capital in an amount equal to 50,000 shares and the closing sale price of the Company’s stock is greater than \$0.50 per share, the Company also has the right, in its sole discretion, to present Aspire Capital with a volume-weighted average price purchase notice (each, a “VWAP Purchase Notice”) directing Aspire Capital to purchase an amount of stock equal to up to 30% of the aggregate shares of Common Stock traded on its principal market on the next trading day (the “VWAP Purchase Date”), subject to a maximum number of shares the Company may determine. The purchase price per share pursuant to such VWAP Purchase Notice is generally 95% of the volume-weighted average price for Common Stock traded on its principal market on the VWAP Purchase Date.

The purchase price will be adjusted for any reorganization, recapitalization, non-cash dividend, stock split, or other similar transaction occurring during the period(s) used to compute the Purchase Price. The Company may deliver multiple Purchase Notices and VWAP Purchase Notices to Aspire Capital from time to time during the term of the Purchase Agreement, so long as the most recent purchase has been completed.

The Purchase Agreement provides that the Company and Aspire Capital will not effect any sales under the Purchase Agreement on any purchase date where the closing sale price of the Common Stock is less than \$0.50. There are no trading volume requirements or restrictions under the Purchase Agreement, and the Company will control the timing and amount of sales of Common Stock to Aspire Capital. Aspire Capital has no right to require any sales by the Company, but is obligated to make purchases from the Company as directed by the Company in accordance with the Purchase Agreement. There are no limitations on use of proceeds, financial or business covenants, restrictions on future fundings, rights of first refusal, participation rights, penalties or liquidated damages in the Purchase Agreement. In consideration for entering into the Purchase Agreement, concurrently with the execution of the Purchase Agreement, the Company issued to Aspire Capital 80,000 shares of Common Stock (the “Commitment Shares”). The Purchase Agreement may be terminated by the Company at any time, at its discretion, without any cost to the Company. Aspire Capital has agreed that neither it nor any of its agents, representatives and affiliates shall engage in any direct or indirect short-selling or hedging of Common Stock during any time prior to the termination of the Purchase Agreement. Any proceeds from the Company receives under the Purchase Agreement are expected to be used



for working capital and general corporate purposes.

On February 23, 2017, pursuant to a purchase notice issued by the Company to Aspire Capital pursuant to the Purchase Agreement, Aspire Capital purchased 20,000 shares of its Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

At May 12, 2017, approximately \$9.9 million under the Purchase Agreement remains available for sale to Aspire Capital.

The issuance of the Commitment Shares and all other shares of Common Stock that may be issued from time to time to Aspire Capital under the Purchase Agreement are exempt from registration under the Securities Act, pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act.

## Capitalization

At our annual meeting of stockholders held on October 28, 2015 (the “2015 Stockholder Meeting”), our stockholders approved a proposal to amend the Company’s Certificate of Incorporation (the “Charter”) in order to increase the number of shares of Common Stock authorized for issuance from 180,000,000 to 500,000,000.

On September 21, 2016 we effected a 1-for-200 reverse stock-split that was previously approved by our stockholders

On September 19, 2016, pursuant to the Second Omnibus Amendment, the Company exercised a mandatory conversion right and, on September 21, 2016, (i) converted the entire outstanding principal balance of \$6,000,000, plus accrued interest of \$317,000 on all Notes into 1,263,406 shares of the Company’s Common Stock at a conversion price of \$5.00 per share and (ii) cancelled all 600,000 Warrants issued in connection with the Notes.

|                                                                                        | Shares             |
|----------------------------------------------------------------------------------------|--------------------|
| Shares of Common Stock Authorized                                                      | 500,000,000        |
| Shares of Preferred stock Authorized (none issued and outstanding)                     | 15,000,000         |
| Total Authorized Shares                                                                | <u>515,000,000</u> |
| Shares of Common Stock Issued and Outstanding at March 31, 2017                        | 2,528,061          |
| Common Stock issuable upon the exercise of outstanding stock options at March 31, 2017 | 348,095(1)         |
| Common Stock issuable upon the exercise of outstanding warrants at March 31, 2017      | 6,895(1)           |
| Common Stock forfeited stock options                                                   | (2,350)            |
| Common Stock issued pursuant to a vendor agreement                                     | 6,000              |
| Total securities outstanding and reserved for issuance at May 15, 2017                 | <u>2,886,701</u>   |

1) For more detail on the exercise prices and expiration dates of the options and warrants please refer to the “Stock Option Plans” and “Warrants to Purchase Common Stock” sections of Note 3. Stockholders’ Equity of the Unaudited Condensed Consolidated Financial Statements.

## Financial Operations Overview

### *Critical Accounting Policies and Significant Judgments and Estimates*

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

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

#### *Revenue Recognition*

We have generated limited revenues since our inception. Revenues for our Neurometric Service product are recognized when a PEER Report is delivered to a Client-Physician. In cases where we bill insurance payers or Medicare/Medicaid, we only recognize revenues on the receipt of payment.

#### *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.

#### *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.

### **Results of Operations for the three months ended March 31, 2017 and 2016**

Our operations consist solely of our Neurometric Services business which is focused on the delivery of PEER Reports that enable psychiatrists and other physicians/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.

|                                     | <b>Three months ended</b> |             |
|-------------------------------------|---------------------------|-------------|
|                                     | <b>March 31,</b>          |             |
|                                     | <b>2017</b>               | <b>2016</b> |
| Revenues                            | 100%                      | 100%        |
| Cost of revenues                    | 12                        | 7           |
| Gross profit                        | 88                        | 93          |
| Research                            | 92                        | 110         |
| Product development                 | 918                       | 884         |
| Sales and marketing                 | 601                       | 643         |
| General and administrative expenses | 2,929                     | 1,790       |
| Operating loss                      | (4,452)                   | (3,334)     |
| Other income (expense), net         | (100)                     | 2,644       |
| Net loss                            | (4,552)%                  | (690)%      |

#### *Revenues*

|                              | <b>Three months ended</b> |             | <b>Percent Change</b> |
|------------------------------|---------------------------|-------------|-----------------------|
|                              | <b>March 31,</b>          |             |                       |
|                              | <b>2017</b>               | <b>2016</b> |                       |
| Neurometric Service Revenues | \$ 31,900                 | \$ 20,700   | 54%                   |

The number of paid PEER Reports delivered for the three month period ended March 31, 2017, was 69 reports compared to 48 for the same period in the prior year. The average revenue was \$468 per PEER Report for the quarter ended March 31, 2017. The total numbers of free PEER Reports processed were 15 and 4 for the quarters ended March 31, 2017 and 2016 respectively. These free PEER Reports are used for training, database-enhancement and compassionate-use purposes.

### Cost of revenues

|                         | Three months ended<br>March 31, |          | Percent<br>Change |
|-------------------------|---------------------------------|----------|-------------------|
|                         | 2017                            | 2016     |                   |
| <b>Cost of revenues</b> |                                 |          |                   |
| Neurometric Services    | \$ 3,800                        | \$ 1,400 | 1.71%             |

The cost of Neurometric Services revenues consisting of payroll costs (including stock-based compensation) and consulting costs, which were as follows:

| Key Expense Categories  | Three months ended<br>March 31, |          |          |
|-------------------------|---------------------------------|----------|----------|
|                         | 2017                            | 2016     | Change   |
| (1) Consulting fees     | 3,800                           | 1,400    | 2,400    |
| Total Costs of Revenues | \$ 3,800                        | \$ 1,400 | \$ 2,400 |

Consulting costs associated with the processing of second generation PEER Reports are between \$10 and \$60 per report for EEG artifacting and neuro review services, and approximately \$85 for EEG the collecting of the EEG.

Comparing the three month period ended March 31, 2017, with the corresponding period in 2016:

(1) Consulting fees increased slightly for the quarter ended March 31, 2017 as we are using more consultants to process EEG readings for patients.

### Research

|                      | Three months ended<br>March 31, |           | Percent<br>Change |
|----------------------|---------------------------------|-----------|-------------------|
|                      | 2017                            | 2016      |                   |
| <b>Research</b>      |                                 |           |                   |
| Neurometric Services | \$ 29,300                       | \$ 22,700 | 29%               |

Research expenses consist of payroll costs (including stock-based compensation), consulting fees and other miscellaneous costs which were as follows:

| Key Expense Categories        | Three months ended<br>March 31, |           |            |
|-------------------------------|---------------------------------|-----------|------------|
|                               | 2017                            | 2016      | Change     |
| (1) Salary and benefit costs  | \$ 2,200                        | \$ 10,400 | \$ (8,200) |
| (2) Consulting fees           | 24,800                          | 10,000    | 14,800     |
| (3) Other miscellaneous costs | 2,300                           | 2,300     | -          |
| Total Research                | \$ 29,300                       | \$ 22,700 | \$ 6,600   |

Comparing the three-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salary and benefit costs, which are solely comprised of stock-based compensation decreased for the 2017 and 2016 periods due to certain stock-based compensation became fully amortized; and
- (2) Consulting costs increased in the current period as a result of a new consulting agreement with our Medical Officer for the monitoring of the clinical trials and the training of clinical trial investigators and new PEER Online users. Additionally, our Medical Officer is advising the Company on clinical trial design and product development. The Company also entered into a consulting agreement with a second physician to help with the training of clinical trial investigators on the PEER Report allowing them to participate in the SMART-MD trial, and consult with other physicians in the use and interpretation of the PEER Report; and
- (3) Other miscellaneous costs for the 2017 and 2016 periods stayed the same.

## Product Development

|                            | Three months ended<br>March 31, |            | Percent<br>Change |
|----------------------------|---------------------------------|------------|-------------------|
|                            | 2017                            | 2016       |                   |
| <b>Product Development</b> |                                 |            |                   |
| Neurometric Services       | \$ 292,800                      | \$ 183,000 | 60%               |

Product Development expenses consist of payroll costs (including stock-based compensation), consulting fees, system development costs, travel and miscellaneous costs which were as follows:

| Key Expense Categories          | Three months ended<br>March 31, |            |            |
|---------------------------------|---------------------------------|------------|------------|
|                                 | 2017                            | 2016       | Change     |
| (1) Salaries and benefit costs  | \$ 204,700                      | \$ 121,300 | \$ 83,400  |
| (2) Consulting fees             | 51,500                          | 37,600     | 13,900     |
| (3) System development costs    | 17,700                          | 13,100     | 4,600      |
| (4) Conference and travel costs | 7,800                           | 800        | 7,000      |
| (5) Other miscellaneous costs   | 11,100                          | 10,200     | 900        |
| Total Product Development       | \$ 292,800                      | \$ 183,000 | \$ 109,800 |

Comparing the three-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salaries and benefits increased by a net \$83,400 in the 2017 period which was related to stock-based compensation of new stock options which were granted in October 2016; and
- (2) Consulting fees increased by \$13,900 for the 2017 period; the increase was for the Canadian Armed Forces Study, the preparation of the SMART-MD clinical trial, and work associated with our quality systems. Consulting fees for the 2016 period were minimal due to the reduced level of activity at that time; and
- (3) System development and maintenance costs increased slightly in the 2017 period, due to increased system maintenance costs and minor system enhancements. Costs associated with the development of our Outcomes Application are currently being capitalized and will be depreciated over the application's expected economic life; and
- (4) Conference and travel costs increased by \$7,000 due to travel for the Canadian Armed Forces Trial and to initiate the SMART-MD trial with Carolina Partners; and
- (5) Other miscellaneous expenses increased slightly for both periods.

## Sales and Marketing

|                            | Three months ended<br>March 31, |            | Percent<br>Change |
|----------------------------|---------------------------------|------------|-------------------|
|                            | 2017                            | 2016       |                   |
| <b>Sales and Marketing</b> |                                 |            |                   |
| Neurometric Services       | \$ 191,800                      | \$ 133,000 | 44%               |

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 miscellaneous expenses. The reason for the change in these expenses is discussed below.

| Key Expense Categories              | Three months ended<br>March 31, |            |           |
|-------------------------------------|---------------------------------|------------|-----------|
|                                     | 2017                            | 2016       | Change    |
| (1) Salaries and benefit costs      | \$ 76,700                       | \$ 33,500  | \$ 43,200 |
| (2) Consulting fees                 | 91,300                          | 44,000     | 47,300    |
| (3) Advertising and marketing costs | 4,500                           | 45,000     | (40,500)  |
| (4) Conference and travel costs     | 4,700                           | -          | 4,700     |
| (5) Other miscellaneous costs       | 14,600                          | 10,500     | 4,100     |
| Total Sales and marketing           | \$ 191,800                      | \$ 133,000 | \$ 58,800 |

Comparing the three-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salaries and benefits for the 2017 period, increased by \$43,200 from the 2016 period; of this amount \$18,600 was due to stock-based compensation of new stock options which were granted in October 2016, the remainder was contributed to hiring a new marketing sales staff which increased salaries; and
- (2) Consulting fees for the 2017 period increased by \$47,300 compared to the same period for 2016. Initially, there was a reduction of \$27,000 from renegotiating our contract with DCA services to \$3,000 per month, however, the reduction was offset by increases with marketing consultants. A \$70,000 increase was related to hiring Lloyd Garner & Associates LLC to assist the Company with increasing its value with health system and payer engagements; \$2,300 was related to assist the Company with making connections in specific media outlets. The remaining was related to slight increases with other consultants; and
- (3) Advertising and marketing expenses decreased for the 2017 period, by a net \$40,500. During the 2016 period we incurred approximately \$45,000 in social media advertising costs focused on the Southern California market. This expenditure has resulted in the generation of over 1,000 leads per month for potential patients. For the current 2017 period the Company incurred approximately \$4,500 in social media advertising costs focused on the Southern California market this program started at the end of the quarter; and
- (4) Conference and travel costs increased by \$4,700 due to hiring a marketing sales staff for the Southeast Region to work on revenue generating sales and account management activities with physicians, health systems and providers in the following states; North Carolina, South Carolina, and Georgia, the costs associated were contributed to travel to and from North Carolina and Corporate Office in California; and
- (5) Miscellaneous expenditures minor change for the 2017 and 2016 periods.

**General and administrative**

|                                   | <b>Three months ended<br/>March 31,</b> |             | <b>Percent<br/>Change</b> |
|-----------------------------------|-----------------------------------------|-------------|---------------------------|
|                                   | <b>2017</b>                             | <b>2016</b> |                           |
| <b>General and Administrative</b> |                                         |             |                           |
| Neurometric Services              | \$ 934,200                              | \$ 370,600  | 1.52%                     |

General and administrative expenses for our Neurometric Services business are largely comprised of payroll and benefit costs, including stock-based compensation, legal fees, other professional and consulting fees, patent costs, general administrative and occupancy costs, dues and subscriptions, conference, travel and miscellaneous costs. The reason for the change in these expenses is discussed below.

| <b>Key Expense Categories</b>                  | <b>Three months ended<br/>March 31,</b> |                   |                   |
|------------------------------------------------|-----------------------------------------|-------------------|-------------------|
|                                                | <b>2017</b>                             | <b>2016</b>       | <b>Change</b>     |
| (1) Salaries and benefit costs                 | \$ 455,100                              | \$ 179,900        | \$ 275,200        |
| (2) Legal fees                                 | 142,600                                 | 14,900            | 127,700           |
| (3) Other professional and consulting fees     | 140,200                                 | 24,000            | 116,200           |
| (4) Patent costs                               | 46,900                                  | 44,300            | 2,600             |
| (5) Marketing and investor relations costs     | 2,500                                   | 17,900            | (15,400)          |
| (6) Conference and travel costs                | 62,100                                  | 12,700            | 49,400            |
| (7) Dues & subscriptions fees                  | 20,400                                  | 17,300            | 3,100             |
| (8) General administrative and occupancy costs | 64,400                                  | 59,600            | 4,800             |
| <b>Total General and administrative costs</b>  | <b>\$ 934,200</b>                       | <b>\$ 370,600</b> | <b>\$ 563,600</b> |

Comparing the three-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salaries and benefit expenses increased by \$275,200 between the 2017 and 2016 periods; \$54,700 was related to the amortization of stock options granted in September 2016 and October 2016; \$214,700 related to the amortization of Common Stock grants to Directors and Officers which are being amortized over a 12-month period; \$8,900 was related to sign on bonus for our new Chief Financial Officer; the remaining balance was due to a reduction in health insurance and payroll costs; and

- (2) Legal fees showed a net increase of \$127,700 between the 2017 and 2016 periods: of this increase \$49,900 related to legal fees associated with our fund raising activities; \$31,200 related to legal fees for the review of the Aspire Capital Equity Purchase Agreement; \$21,100 related to specialty healthcare legal advice; the balance relates to general legal fees which was the same for both periods; and
- (3) Other professional and consulting fees showed a net increase of \$116,200 for the quarter ended March 31, 2017: of this increase \$40,500 related to operations consulting fees; \$53,500 relates to Strategic Consultant which was paid \$4,000 a month plus a total of 10,000 shares of common stock for services; \$25,500 relates to investor relations firms and consultants; and
- (4) Patent costs increased by \$2,600 due to the timing and volume of patent and trademark applications and maintenance costs;
- (5) Marketing and investor relations costs decreased by \$15,400 for the 2016 period as we engaged a public relations firm, Dian Griesel International, which did not continue in the 2017 period; and
- (6) Conference and travel showed a net increase of \$49,400 for the 2017 period: \$24,100 related to conferences attended; the balance was due to increased travel by our executive management for meetings with investors, healthcare payers and providers on the East Coast; and
- (7) Dues and subscription expenditures had a minor increase in the 2017 period; and
- (8) General administrative and occupancy expenses increased by \$4,800 in the quarter ended March 31, 2017, largely due to amortization of our Patient Reported Outcomes application which was capitalized during development as an intangible asset and is now being amortized over a 36-month period.

#### **Other Income and Expense**

|                                            | <b>Three months ended</b> |             | <b>Percent<br/>Change</b> |
|--------------------------------------------|---------------------------|-------------|---------------------------|
|                                            | <b>March 31,</b>          |             |                           |
|                                            | <b>2017</b>               | <b>2016</b> |                           |
| <b>Other Income (Expense)</b>              |                           |             |                           |
| Neurometric Services income (expense), net | \$ (1,400)                | \$ 547,300  | (100)%                    |

For the three-month periods ended March 31, 2017 and 2016, changes in net non-operating Other Income (Expense) for Neurometric Services were as follows:

- For the 2017 period, we incurred \$1,400 in cash interest charges. For the 2016 period, we incurred non-cash interest charges totaling \$239,600 of which \$49,900 was accrued interest on our convertible promissory notes at 5% per annum; the balance of \$189,700 was comprised of warrant discount amortization and warrant and note conversion derivative liability charges; only \$500 were for actual net interest paid in cash during the period.
- Under ASC 815, all derivative instruments are required to be measured periodically at fair value and the resultant change in fair value of non-hedging derivative instruments are to be recognized in current earnings. For the current 2017 quarter, no charges were incurred as we had no derivative liabilities during the period. For the 2016 period, we revalued our derivative liabilities for the beneficial conversion feature of the convertible promissory notes which resulted in a net non-cash gain on derivative liabilities of \$786,900.

#### **Net Loss**

|                               | <b>Three months ended</b> |              | <b>Percent<br/>Change</b> |
|-------------------------------|---------------------------|--------------|---------------------------|
|                               | <b>March 31,</b>          |              |                           |
|                               | <b>2017</b>               | <b>2016</b>  |                           |
| Neurometric Services net loss | \$ (1,452,000)            | \$ (142,700) | (9)%                      |

The net loss for our Neurometric Services business of \$1,452,000 for the three months ended March 31, 2017, compared to the approximately \$142,700 loss in the prior year is primarily due to the large non-cash accounting charges in our Other Expenses category described directly above.

The Company's operating loss of \$1,452,000 for the three months ended March 31, 2017, is an increase of \$730,000 from the \$690,000 loss in the prior year. This additional operating loss is largely due to the amortization of grants of common stock and options to directors, officers and staff. Additionally, increased legal fees associated with financing activities, includes the Aspire Capital Equity Purchase Agreement and consulting fees.

## Results of Operations for the six months ended March 31, 2017 and 2016

Our operations consist solely of our Neurometric Services business which is focused on the delivery of PEER Reports that enable psychiatrists and other physicians/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.

|                                     | Six months ended<br>March 31, |          |
|-------------------------------------|-------------------------------|----------|
|                                     | 2017                          | 2016     |
| Revenues                            | 100%                          | 100%     |
| Cost of revenues                    | 14                            | 6        |
| Gross profit                        | 86                            | 94       |
| Research                            | 113                           | 100      |
| Product development                 | 1,087                         | 675      |
| Sales and marketing                 | 550                           | 564      |
| General and administrative expenses | 3,615                         | 1,651    |
| Operating loss                      | (5,279)                       | (2,896)  |
| Other income (expense), net         | (67)                          | (5,020)  |
| Net loss                            | (5,346)%                      | (7,916)% |

### Revenues

|                              | Six months ended<br>March 31, |           | Percent<br>Change |
|------------------------------|-------------------------------|-----------|-------------------|
|                              | 2017                          | 2016      |                   |
| Neurometric Service Revenues | \$ 54,100                     | \$ 45,400 | 19%               |

The number of third party paid PEER Reports delivered as part of our Neurometric Services business increased to 110 for the six-month period ended March 31, 2017, up from 108 for the same period in the prior year. Our standard price per PEER Report is \$400 for our commercial patients plus the fee for Company recorded EEGs and any ancillary services. The average revenue was \$495 per PEER Report, which also included any ancillary services such as the recording of the EEG and its conversion from an analog EEG to a digital QEEG (Quantitative EEG). The total numbers of free PEER Reports processed were 32 and 9 for the six-month periods ended March 31, 2017 and 2016 respectively. These free PEER Reports are used for training, database-enhancement and compassionate-use purposes.

### Cost of Revenues

|                         | Six months ended<br>March 31, |          | Percent<br>Change |
|-------------------------|-------------------------------|----------|-------------------|
|                         | 2017                          | 2016     |                   |
| <b>Cost of Revenues</b> |                               |          |                   |
| Neurometric Services    | \$ 7,600                      | \$ 2,700 | 1.81%             |

The cost of Neurometric Services revenues consisting of payroll costs (including stock-based compensation) and consulting costs, which were as follows:

| Key Expense Categories  | Six months ended<br>March 31, |          |          |
|-------------------------|-------------------------------|----------|----------|
|                         | 2017                          | 2016     | Change   |
| (1) Consulting fees     | 7,600                         | 2,700    | 4,900    |
| Total Costs of Revenues | \$ 7,600                      | \$ 2,700 | \$ 4,900 |



Consulting costs associated with the processing of second generation PEER Reports are between \$10 and \$60 per report for EEG artifacting and neuro review services, and approximately \$85 for EEG the collecting of the EEG.

Comparing the six months ended March 31, 2017, with the corresponding period in 2016:

- (1) Consulting fees increased for the quarter ended March 31, 2017 as we are using more consultants to process EEG readings for patients.

#### Research

|                      | Six months ended<br>March 31, |           | Percent<br>Change |
|----------------------|-------------------------------|-----------|-------------------|
|                      | 2017                          | 2016      |                   |
| <b>Research</b>      |                               |           |                   |
| Neurometric Services | \$ 60,900                     | \$ 45,300 | 34%               |

Research expenses consist of payroll costs (including stock-based compensation), consulting fees and other miscellaneous costs which were as follows:

| Key Expense Categories        | Six months ended<br>March 31, |                  |                  |
|-------------------------------|-------------------------------|------------------|------------------|
|                               | 2017                          | 2016             | Change           |
| (1) Salary and benefit costs  | \$ 8,800                      | \$ 20,800        | \$ (12,000)      |
| (2) Consulting fees           | 47,600                        | 20,000           | 27,600           |
| (3) Other miscellaneous costs | 4,500                         | 4,500            | -                |
| Total Research                | <u>\$ 60,900</u>              | <u>\$ 45,300</u> | <u>\$ 15,600</u> |

Comparing the six-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salary and benefit costs, which are solely comprised of stock-based compensation decreased for the 2017 and 2016 periods were due to certain stock-based compensation became fully amortized; and
- (2) Consulting fees for the 2017 period increased by \$59,300 compared to the same period for 2016. Initially, there was a reduction of \$27,000 from renegotiating our contract with DCA services to \$3,000 per month, however, the reduction was offset by increases with marketing consultants. A \$70,000 increase was related to hiring Lloyd Garner & Associates LLC to assist the Company with increasing its value with health system and payer engagements. The remaining was related to slight increases with other consultants; and
- (3) Other miscellaneous costs which for the 2017 and 2016 periods remained the same.

#### Product Development

|                            | Six months ended<br>March 31, |            | Percent<br>Change |
|----------------------------|-------------------------------|------------|-------------------|
|                            | 2017                          | 2016       |                   |
| <b>Product Development</b> |                               |            |                   |
| Neurometric Services       | \$ 588,100                    | \$ 306,400 | 92%               |

Product Development expenses consist of payroll costs (including stock-based compensation), consulting fees, system development costs, travel and miscellaneous costs which were as follows:

| Key Expense Categories          | Six months ended<br>March 31, |                   |                   |
|---------------------------------|-------------------------------|-------------------|-------------------|
|                                 | 2017                          | 2016              | Change            |
| (1) Salaries and benefit costs  | \$ 407,900                    | \$ 225,100        | \$ 182,800        |
| (2) Consulting fees             | 103,200                       | 40,600            | 62,600            |
| (3) System development costs    | 33,200                        | 24,500            | 8,700             |
| (4) Conference and travel costs | 15,100                        | 800               | 14,300            |
| (5) Other miscellaneous costs   | 28,700                        | 15,400            | 13,300            |
| Total Product Development       | <u>\$ 588,100</u>             | <u>\$ 306,400</u> | <u>\$ 281,700</u> |

Comparing the six-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salaries and benefits increased by a net \$182,800 in the 2017 period which was related to stock-based compensation of new stock options which were granted in October 2016; and
- (2) Consulting fees increased by \$62,600 for the 2017 period: the increase was for the Canadian Armed Forces Study, the preparation of the SMART-MD clinical trial, and work associated with our quality systems. Consulting resources for the 2016 quarter were minimal due to the reduced level of activity at that time; and
- (3) System development and maintenance costs increased by \$8,700 in the 2017 period, due to increased system maintenance costs and minor system enhancements. Costs associated with the development of our Outcomes Application are currently being capitalized and will be depreciated over the application's expected economic life; and
- (4) Conference and travel costs increased by \$14,300 for the 2017 period; due to travel to work on the Canadian Armed Forces Trial and to initiate the SMART-MD trial with Carolina Partners; For the 2016 period resources were limited; and
- (5) Other miscellaneous expenses increased by \$13,300 in the 2017, partly due to the renewal of the State of California Medical Device Manufacturing License and monthly web-hosting fees for our patient-reported-outcomes application which we developed.

### Sales and Marketing

|                            | Six months ended<br>March 31, |            | Percent<br>Change |
|----------------------------|-------------------------------|------------|-------------------|
|                            | 2017                          | 2016       |                   |
| <b>Sales and Marketing</b> |                               |            |                   |
| Neurometric Services       | \$ 297,500                    | \$ 256,100 | 16%               |

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 miscellaneous expenses. The reason for the change in these expenses is discussed below.

| Key Expense Categories              | Six months ended<br>March 31, |                   |                  |
|-------------------------------------|-------------------------------|-------------------|------------------|
|                                     | 2017                          | 2016              | Change           |
| (1) Salaries and benefit costs      | \$ 125,600                    | \$ 68,600         | \$ 57,000        |
| (2) Consulting fees                 | 136,600                       | 77,100            | 59,500           |
| (3) Advertising and marketing costs | 4,500                         | 93,400            | (88,900)         |
| (4) Conference and travel costs     | 4,700                         | 100               | 4,600            |
| (5) Other miscellaneous costs       | 26,100                        | 16,900            | 9,200            |
| Total Sales and marketing           | <u>\$ 297,500</u>             | <u>\$ 256,100</u> | <u>\$ 41,400</u> |

Comparing the six-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salaries and benefits for the 2017 period, increased by \$57,000 from the 2016 period; of this amount \$32,000 was due to stock-based compensation of new stock options which were granted in October 2016, the remainder was contributed to hiring a new marketing sales staff which increased salaries; and
- (2) Consulting fees for the 2017 period increased by \$59,500 compared to the same period for 2016. Initially, there was a reduction of \$26,500 from renegotiating our contract with DCA services to \$3,000 per month, however, the reduction was offset by increases with marketing consultants. A \$70,000 increase was related to hiring Lloyd Garner & Associates LLC to assist the Company with increasing its value with health system and payer engagements; \$16,000 was related to assist the Company with making connections in specific media outlets; and
- (3) Advertising and marketing expenses decreased for the 2017 period, by a net \$88,900. During the 2016 period we incurred approximately \$93,400 in social media advertising costs focused on the Southern California market. This expenditure has resulted in the generation of over 1,000 leads per month for potential patients. For the current 2017 period the incurred approximately \$4,500 in social media advertising costs focused on the Southern California market this program started at the end of the quarter; and
- (4) Conference and travel costs increased by \$4,600 for the 2017 period over the 2016 period due to hiring a marketing sales staff for the Southeast Region, the costs associated were contributed to travel to and from North Carolina and Corporate Office in California; and

- (5) Miscellaneous expenditures costs increased by \$9,200 for the 2017 and 2016 period majority of the costs were associated to rent expense, as the MAC center opened in February 2016, current 2017 period we incurred full costs of operations.

**General and administrative**

|                                   | Six months ended<br>March 31, |            | Percent<br>Change |
|-----------------------------------|-------------------------------|------------|-------------------|
|                                   | 2017                          | 2016       |                   |
| <b>General and Administrative</b> |                               |            |                   |
| Neurometric Services              | \$ 1,955,900                  | \$ 749,600 | 1.61%             |

General and administrative expenses for our Neurometric Services business are largely comprised of payroll and benefit costs, including stock-based compensation, legal fees, other professional and consulting fees, patent costs, general administrative and occupancy costs, dues and subscriptions, conference, travel and miscellaneous costs. The reason for the change in these expenses is discussed below.

| Key Expense Categories                         | Six months ended<br>March 31, |                   |                     |
|------------------------------------------------|-------------------------------|-------------------|---------------------|
|                                                | 2017                          | 2016              | Change              |
| (1) Salaries and benefit costs                 | \$ 983,500                    | \$ 353,100        | \$ 630,400          |
| (2) Legal fees                                 | 372,600                       | 53,000            | 319,600             |
| (3) Other professional and consulting fees     | 248,500                       | 74,000            | 174,500             |
| (4) Patent costs                               | 60,900                        | 51,300            | 9,600               |
| (5) Marketing and investor relations costs     | 7,600                         | 21,800            | (14,200)            |
| (6) Conference and travel costs                | 88,400                        | 30,200            | 58,200              |
| (7) Dues & subscriptions fees                  | 47,800                        | 40,800            | 7,000               |
| (8) General administrative and occupancy costs | 146,600                       | 125,400           | 21,200              |
| <b>Total General and administrative costs</b>  | <b>\$ 1,955,900</b>           | <b>\$ 749,600</b> | <b>\$ 1,206,300</b> |

Comparing the six-month period ended March 31, 2017, with the corresponding period in 2016:

- (1) Salaries and benefit expenses increased by \$630,400 between the 2017 and 2016 periods; \$198,300 was related to the amortization of stock options granted in September 2016 and October 2016; \$431,000 related to the amortization of Common Stock grants to Directors and Officers which are being amortized over a 12-month period; \$8,900 was related to sign on bonus for new Chief Financial Officer; the remaining balance was due to a reduction in health insurance and payroll costs; and
- (2) Legal fees showed a net increase of \$319,600 between the 2017 and 2016 periods: of this increase \$180,200 related to legal fees associated with our fund raising activities; \$67,500 related to legal fees for the review of the Aspire Capital Equity Purchase Agreement; \$22,400 related to specialty healthcare legal advice; \$53,000 related to a renegotiation of our fees in the 2016 period associated with our lobbying efforts; the balance relates to general legal fees which was about the same for both periods; and
- (3) Other professional and consulting fees showed a net increase of \$174,500 between the 2017 and 2016 periods: of this increase \$40,500 related to Operations consulting fees; \$106,500 relates to Strategic Consultant which was paid \$4,000 a month plus a total of 10,000 shares of common stock for services; \$25,500 relates to investor relations firms and Consultants; and
- (4) Patent costs decreased by \$9,600 due to the timing and volume of patent and trademark applications and maintenance costs; and
- (5) Marketing and investor relations costs decreased by \$14,200 for the 2016 period as we engaged a public relations firm, Dian Griesel International, which did not continue in the 2017 period; and
- (6) Conference and travel showed a net increase of \$58,200 for the 2017 period: \$27,400 related to conferences attended; the balance was due to increased travel by executive management for meetings with investors, healthcare payers and providers on the East Coast; and
- (7) Dues and subscription cost increased by \$7,000 for the 2017 period due to increased cost of the Salesforce applications, other web-based applications and an increase in listing fees on the OTC.QB platform; and
- (8) General administrative and occupancy expenses increased by \$21,200 for the 2017, \$13,500 related to amortization of our Patient Reported Outcomes application which was capitalized during development as an intangible asset and is now being amortized over a 36-month period; the remainder related to printing associated with annual meeting costs, remainder of the operating costs remained the same over the 2017 and 2016 periods.

## Other Expense

|                                   | Six months ended<br>March 31, |                | Percent<br>Change |
|-----------------------------------|-------------------------------|----------------|-------------------|
|                                   | 2017                          | 2016           |                   |
| <b>Other Expense</b>              |                               |                |                   |
| Neurometric Services expense, net | \$ (3,900)                    | \$ (2,279,000) | 100%              |

For the six-month periods ended March 31, 2017 and 2016, changes in net non-operating Other Income (Expense) for Neurometric Services were as follows:

- For the 2017 period, we incurred \$3,900 in cash interest charges. For the 2016 period, we incurred non-cash interest charges totaling \$739,800 of which \$88,800 was accrued interest on our convertible promissory notes at 5% per annum; the balance of \$651,000 was comprised of warrant discount amortization and warrant and note conversion derivative liability charges; only \$1,300 was for actual net interest paid in cash during the period.
- Under ASC 815, all derivative instruments are required to be measured periodically at fair value and the resultant change in fair value of non-hedging derivative instruments are to be recognized in current earnings. For the current 2017 period, no charges were incurred as we had no derivative liabilities during the period. For the 2016 period, we revalued our derivative liabilities for the beneficial conversion feature of the convertible promissory notes which resulted in a net non-cash gain on derivative liabilities of \$798,200.
- For the 2016 period, we incurred a non-cash loss of \$2,337,400 as a result of the accounting for the extinguishment of debt. The debt extinguishment accounting was precipitated by the changes in the fair value of existing notes pursuant to that certain amended note & warrant purchase agreement which extended the maturity date of the existing Notes and provided 100% warrant coverage of the shares underlying the Notes. No similar transaction occurred in the 2017 period.

## Net Loss

|                               | Six months ended<br>March 31, |                | Percent<br>Change |
|-------------------------------|-------------------------------|----------------|-------------------|
|                               | 2017                          | 2016           |                   |
| Neurometric Services net loss | \$ (2,892,200)                | \$ (3,594,000) | (20)%             |

The net loss for our Neurometric Services business of \$2,892,200 for the six-month ended March 31, 2017, compared to the approximately \$3,594,000 loss in the prior year is primarily due to the large non-cash accounting charges in our Other Expenses category described directly above.

The Company's operating loss of \$2,855,900 for the six-months ended March 31, 2017, is an increase of \$1,541,200 from the \$1,314,700 loss in the prior year. This additional operating loss is largely due to the amortization of grants of common stock and options to directors, officers and staff. Additionally, increased legal fees associated with financing activities, which includes the Aspire Capital Equity Purchase Agreement and corporate actions including the stock reverse split and the annual meeting.

## Liquidity and Capital Resources

Since our inception, we have incurred significant losses and not been profitable. As of March 31, 2017, we had an accumulated deficit of approximately \$71.4 million; at March 31, 2016, our accumulated deficit was approximately \$66.2 million. Our management expects that with our proposed clinical trials, sales and marketing and general and administrative costs, 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 March 31, 2017, we had \$1.8 million in cash and cash equivalents and working capital surplus of approximately \$0.35 million. This is compared to our cash position of \$0.44 million in cash and cash equivalents as of March 31, 2016, and a working capital deficit of \$1.05 million. The improvement in our working capital is partly due to an increase in prepaid assets associated with the issuances of stock, and partly due to our increased cash on hand.

The Company has been funded through multiple rounds of private placements primarily from members of our Board of Directors or their affiliates. From September 22, 2014, through to August 11, 2016, we raised \$6 million through an offering of Notes. On September 19, 2016, pursuant to the Second Omnibus Amendment, the Company exercised a mandatory conversion right and, on September 21, 2016, (i) converted the entire outstanding principal balance of \$6,000,000, plus accrued interest of \$317,000, on all Notes into 1,263,406 shares of the Company's Common Stock at a conversion price of \$5.00 per share and (ii) cancelled all 600,000 Warrants issued in connection with the Notes.

On November 30, 2016, December 21 and 29 of 2016, the Company sold and issued an aggregate of 240,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to a total of 11 accredited investors, for which it received gross cash proceeds of \$1,500,000. Three of the 11 accredited investors were affiliates who represented 40% of the cash proceeds as follows: Dr. Robin Smith, our Chairman of the Board purchased 16,000 shares for \$100,000; John Pappajohn, a member of the Board, purchased 48,000 shares for \$300,000; and the Tierney Family Trust of which our Board member, Thomas Tierney is a trustee, purchased 32,000 shares for \$200,000.

On December 6, 2016, the Company, entered into a Common Stock Purchase Agreement with Aspire Capital which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company's common stock over the 30-month term of the Purchase Agreement. Aspire's obligation to make purchases under the Purchase Agreement is subject to, among other things, the Company's Registration Statement on Form S-1 being declared effective by the SEC, which occurred on February 10, 2017. On February 23, 2017, pursuant to a purchase notice issued by the Company to Aspire Capital pursuant to the Purchase Agreement, Aspire Capital purchased 20,000 shares of Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

On February 10, 2017, March 3, March 20, and March 21, 2017 the Company sold and issued an aggregate of 237,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to four affiliated and accredited investors, for which it received gross cash proceeds of \$1,481,250. The affiliated investors were as follows: John Pappajohn, a member of the Board, purchased 72,000 shares for \$450,000; RSJ a greater than 10% shareholder and where Mr. Votruba (a member of our Board) is Director for Life Sciences for the RSJ/Gradus Fund, purchased 160,000 shares for \$1,000,000; and Mr. Harris, a member of the Board, purchased 5,000 shares for \$31,250. The subscription agreement between the Company and RSJ provided for the grant to RSJ by the Company of a right of first refusal through June 30, 2018, to license or to have distribution rights in Europe with respect to any of the Company's technology and/or intellectual property.

The Company has been funded through multiple rounds of private placements, primarily from members of our Board or our affiliates. For details please refer to *Item 2. Private Placement Transactions* and *Notes 3, and 4 to the Unaudited Condensed Consolidated Financial Statements*.

### **Working Capital, Operating Capital and Capital Expenditure Requirements**

As of March 31, 2017, we had approximately \$1.8 million in cash and \$9.9 million remaining available for stock sales under the terms of the Purchase Agreement with Aspire Capital, compared to \$0.3 million of cash as of September 30, 2016. We anticipate that future budget cash expenditures will be approximately \$5.75 million over the next twelve months for commercialization of our product, pilot projects, clinical trials and general operations.

Alternatively, if we decide to pursue a more aggressive plan, we will require additional sources of equity capital during the next twelve months to meet our working capital requirements. This assessment is based on current estimates and assumptions regarding our programs and business needs. Actual working capital requirements could differ materially from this above working capital projection. We may explore strategic opportunities including partnerships, licensing and acquisitions of other entities, assets or products.

Our ability to successfully raise sufficient funds through the sale of equity securities, when needed, is subject to many risks and uncertainties and even if we are successful, future equity issuances would result in dilution to our existing stockholders. Our risk factors are described under the heading "Risk Factors" in Part I Item 1A and elsewhere in our Annual Report on Form 10-K and in other reports we file with the SEC.

Our continued operating losses and limited capital have raised substantial doubt about our ability to continue as a going concern. However, assuming the Company continues to be able to access up to \$10 million through the sale of Common Stock to Aspire, upon the terms and subject to the conditions and limitations set forth in the Purchase Agreement, and in accordance with the Company's future estimated expenses based on its anticipated operations, the Company believes it has the means to meet its current obligations as they become due and to pay its creditors. *For more detail on the issuance of Common Stock to Aspire Capital, refer to Note 1. Nature of Operations of the Unaudited Condensed Consolidated Financial Statements.*

We expect to continue to incur operating losses in the next 18 to 24 months. However, we anticipate that our cash on hand, cash generated through our operations and access to the abovementioned Aspire equity line will be sufficient to fund our operations for more than one year. Management believes that as long as it has the ability to meaningfully access the Aspire equity line, adequate funds will be available and sufficient to facilitate our ability to commercialize our PEER Report, grow our business, and improve the financial condition and/or results of operations.

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

- the amount and timing of costs we incur in connection with our clinical trials and product development activities, including enhancements to our PEER Online database and costs we incur to further validate the efficacy of our technology;
- the amount and timing of costs we incur in connection with the expansion of our commercial operations, including our sales and marketing efforts;
- whether we incur additional consulting and legal fees in our efforts in conducting Non-Significant Risk trials within FDA requirements, which will enable us to obtain a 510(k) clearance from the FDA; and
- if we expand our business by acquiring or investing in complimentary businesses.

If we are unable to generate enough working capital from our current financing agreement with Aspire Capital when needed or to secure additional sources of funding, including revenue, strategic partnerships or investors, it may be necessary to significantly reduce our current rate of spending, which may include a reduction in our operations, pilot programs and commercialization efforts. These events could prevent us from successfully executing our operating plan.

### **Sources of Liquidity**

Since our inception, substantially all of our operations have been financed from equity and debt financings. Between September 2014, and August 2016 we have raised \$6.0 million through the private placement of secured convertible debt with an exercise price of \$5.00 per share of Common Stock. Of this funding \$5.1 million, or 85%, was provided by directors, an officer and affiliates of the Company.

*For details of these financings please see Note 3 and Note 4 of the Notes to the Unaudited Condensed Consolidated Financial Statements.*

On November 30, December 21 and December 29 of 2016, the Company sold and issued an aggregate of 240,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to a total of 11 accredited investors, for which it received gross cash proceeds of \$1,500,000. Three of the 11 accredited investors were affiliates and represented 40% of the cash proceeds as follows: Dr. Robin Smith, our Chairman of the Board purchased 16,000 shares for \$100,000; John Pappajohn, a member of the Board, purchased 48,000 shares for \$300,000; and the Tierney Family Trust of which our Board member, Thomas Tierney is a trustee, purchased 32,000 shares for \$200,000.

On December 6, 2016, the Company, entered into a Common Stock Purchase Agreement with Aspire Capital which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company's common stock over the 30-month term of the Purchase Agreement. Aspire's obligation to make purchases under the Purchase Agreement is subject to, among other things, the Company's Registration Statement on Form S-1 related thereto being declared effective by the SEC, which occurred on February 10, 2017. On February 23, 2017, Aspire Capital purchased 20,000 shares of Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

On February 10, 2017, March 3, March 20, and March 21, 2017 the Company sold and issued an aggregate of 237,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to four affiliated and accredited investors, for which it received gross cash proceeds of \$1,481,250. The affiliated investors were as follows: John Pappajohn, a member of the Board, purchased 72,000 shares for \$450,000; RSJ a greater than 10% shareholder and where Mr. Votruba (a member of our Board) is Director for Life Sciences for the RSJ/Gradus Fund, purchased 160,000 shares for \$1,000,000; and Mr. Harris, a member of the Board, purchased 5,000 shares for \$31,250. The subscription agreement between the Company and RSJ provided for the grant to RSJ by the Company of a right of first refusal through June 30, 2018, to license or to have distribution rights in Europe with respect to any of the Company's technology and/or intellectual property.

*For details of these financings please see Note 3 of the Notes to the Unaudited Condensed Consolidated Financial Statements.*

Cash on hand as of May 12, 2017 is \$1,100,700. As additional cash is needed for operations we may, from time to time, access the Aspire Capital equity line or raise funds through private placement transaction, whichever is more cost effective and available at the time.

### **Cash Flows**

Net cash used in operating activities was \$1,601,100 for the six-months ended March 31, 2017, compared to \$1,339,900 for the same period in 2016. Of the net \$261,200 increase in cash used for operations between the two periods: in general net cash expenditures increased across the board including: consulting fees which increased by approximately \$324,200, system maintenance and development increased by \$15,700. These increases were partly offset by a reduction in advertising expenditures of \$103,100. The balance of the difference, \$236,800, was largely due to the pay-down of balances owed on legal fees and other payables.

During the six-months ended March 31, 2017, the Company spent \$88,400 in the purchase of computer equipment and expenditure on our Patient Reported Outcomes app. During the same period in 2016 the Company spent \$10,000 in investing activities.

Financing activities for the six-months ended March 31, 2017, consisted of \$3.10 million in cash proceeds received from private placements of equity from 13 accredited investors, of which five are affiliated with the Company. For same period in 2016, financing activities were \$1.36 million raised from the private placements pursuant to the second amended note & warrant purchase agreement from four affiliated investors of the Company.



## **Income Taxes**

Current and non-current deferred taxes have been recorded on a net basis in the accompanying balance sheet. As of September 30, 2016, the Company had Federal net operating loss carryforwards of approximately \$45.7 million and State net operating loss carryforwards of approximately \$34.1 million. Both the Federal and State net operating loss carryforwards will begin to expire in 2022 and 2017 respectively. Our ability to utilize net operating loss carryforwards may be limited in the event that a change in ownership, as defined in the Internal Revenue Code, occurs in the future. The Company has placed a valuation allowance against the deferred tax assets in excess of deferred tax liabilities due to the uncertainty surrounding the realization of such excess tax assets. Management periodically evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced accordingly.

## **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.**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to us, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and we necessarily were required to apply our judgment in evaluating whether the benefits of the controls and procedures that we adopt outweigh their costs.

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, an evaluation as of March 31, 2017 was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of March 31, 2017, were effective for the purposes stated above.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

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.

### Item 1A. Risk Factors

There have been no material changes to the risk factors included in the Risk Factors section in our Annual Report on Form 10-K for the year ended September 30, 2016.

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

#### *Private Placement Transactions*

On February 10, 2017, March 3, March 20, and March 21, 2017 the Company sold and issued an aggregate of 237,000 shares of its Common Stock, at a per share price of \$6.25, in private placements to four affiliated and accredited investors, for which it received gross cash proceeds of \$1,481,250. The affiliated investors were as follows: John Pappajohn, a member of the Board, purchased 72,000 shares for \$450,000; RSJ a greater than 10% shareholder and where Mr. Votruba (a member of our Board) is Director for Life Sciences for the RSJ/Gradus Fund, purchased 160,000 shares for \$1,000,000; and Mr. Harris, a member of the Board, purchased 5,000 shares for \$31,250. The subscription agreement between the Company and RSJ provided for the grant to RSJ by the Company of a right of first refusal through June 30, 2018, to license or to have distribution rights in Europe with respect to any of the Company's technology and/or intellectual property.

On February 23, 2017, pursuant to a purchase notice issued by the Company to Aspire Capital pursuant to the Purchase Agreement, Aspire Capital purchased 20,000 shares of Common Stock, at a per share price of \$7.25, resulting in gross cash proceeds to the Company of \$145,000.

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(a)(2) of the Securities Act and/or Regulation D thereunder.

### Item 5. Other Information

During the quarter ended March 31, 2017, we appointed Donald E. D'Ambrosio to serve as our Chief Financial Officer and Secretary, following the retirement of Paul Buck from such offices. For more information regarding the terms of Mr. D'Ambrosio's employment, including compensation, please refer to our Form 8-K filed with the SEC on April 3, 2017.

#### *Donald E. D'Ambrosio, Chief Financial Officer and Secretary*

Donald E. D'Ambrosio joined the Company as our Chief Financial Officer and Secretary effective March 31, 2017. Prior to joining the Company, Mr. D'Ambrosio founded and built Oxygen Funding, Inc. ("Oxygen Funding"), an asset-based lending company specializing in providing working capital to small businesses, where he served as President, CEO and CFO from December 2007 to February 2017. During Mr. D'Ambrosio's tenure, Oxygen Funding grew to fund over \$100 million of client receivables. Prior to founding Oxygen Funding, Mr. D'Ambrosio worked at BNC Mortgage, Inc. (later BNC Mortgage LLC) (collectively "BNC"), a specialty finance company that originated and sold non-conforming residential mortgage loans, where he held positions of increasing responsibility from 1996 to 2007, including controller and, ultimately, SVP, and CFO. Within BNC, Mr. D'Ambrosio played a key role in BNC's IPO (which raised \$35 million), in BNC's listing on NASDAQ on March 10, 1998 and in BNC's leveraged management buyout by Lehman Brothers in 2000, which took BNC private. BNC filed a voluntary petition for bankruptcy in January 2009 under Chapter 11 of the United States Bankruptcy Code. Mr. D'Ambrosio has been a featured speaker for the U.S. Small Business Association and a writer for The Commercial Factor magazine. Mr. D'Ambrosio holds a Bachelor of Business Administration degree with an emphasis in accounting from Temple University. Mr. D'Ambrosio joins the Company with his skill and experience as a CFO, along with his IPO and NASDAQ up-listing experience.

### Item 6. Exhibits

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

| <b>Exhibit Number</b> | <b>Exhibit Title</b>                                                                                                                                                                                          |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1                  | <a href="#"><u>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.</u></a>   |
| 31.2                  | <a href="#"><u>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.</u></a>   |
| 32.1                  | <a href="#"><u>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.</u></a> |
| 101.INS               | XBRL Instance Document                                                                                                                                                                                        |
| 101.SCH               | XBRL Taxonomy Extension Schema                                                                                                                                                                                |

101.CAL XBRL Taxonomy Extension Calculation Linkbase  
101.DEF XBRL Taxonomy Extension Definition Linkbase  
101.LAB XBRL Taxonomy Extension Label Linkbase  
101.PRE XBRL Taxonomy Extension Presentation Linkbase

## 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.

MYnd Analytics, Inc.

Date: May 15, 2017

/s/ George Carpenter  
By: **George Carpenter**  
Its: **Chief Executive Officer (Principal Executive Officer)**

/s/ Don D'Ambrosio  
By: **Don D'Ambrosio**  
Its: **Chief Financial Officer (Principal Financial Officer)**

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 MYnd Analytics, 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: May 15, 2017

/s/ George Carpenter  
**Name: George Carpenter**  
**Title: Chief Executive Officer (Principal Executive Officer)**

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Certification of CFO 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, Don D'Ambrosio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MYnd Analytics, 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: May 15, 2017

/s/ Don D'Ambrosio  
Name: **Don D'Ambrosio**  
Title: **Chief Financial Officer (Principal Financial Officer)**

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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 March 31, 2017 (the "Report") by MYnd Analytics, 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: May 15, 2017

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

Date: May 15, 2017

/s/ Don D'Ambrosio  
**Don D'Ambrosio**  
**Chief Financial Officer (Principal Financial Officer)**

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