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

FORM 8-K
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report:

(Date of earliest event reported)

MARCH 7, 2007

CNS RESPONSE, INC.
(Exact name of registrant as specified in charter)

DELAWARE
(State or other Jurisdiction of Incorporation or Organization)

0-26285	87-0419387
(Commission File Number)	(IRS Employer Identification No.)

2755 BRISTOL ST.
COSTA MESA, CA 92626
(Address of Principal Executive
Offices and zip code)

(949) 248-5461
(Registrant's telephone
number, including area code)

STRATIVATION, INC.
10900 WILSHIRE BLVD., SUITE 500
LOS ANGELES, CA 90024-6525
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of registrant under any of the following provisions:

[_] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[_] Soliciting material pursuant to Rule 14a-12(b) under the Exchange Act (17 CFR 240.14a-12(b))

[_] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[_] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information included in this Form 8-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"). This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. Forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that any projections or other expectations included in any forward-looking statements will come to pass. Our

actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

Reference is made to the description of the Subscription Agreement, Registration Rights Agreements, and Indemnification Agreement under Item 2.01 of this report, which description is incorporated by reference into this Item 1.01.

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

Founded in 2000, and located in Costa Mesa, California, the business of CNS Response, Inc., a California corporation ("CNSR California"), is focused on the commercialization of a patented system that aids physicians in the identification and determination of appropriate and effective medications for patients with certain behavioral (mental or addictive) disorders. CNSR California's technology provides medical professionals with medication sensitivity data for a subject patient based upon the identification and correlation of treatment outcome information from other patients with similar neurophysiologic characteristics which are contained in a proprietary outcomes database. This methodology, called "Referenced-EEG" or "rEEG" represents an innovative approach to identifying effective medications for patients suffering from debilitating behavioral disorders. Referenced-EEG and rEEG are registered trademarks of CNSR California.

In addition, rEEG provides CNSR California with significant opportunities in the area of pharmaceutical development. Using the rEEG methodology in combination with CNSR California's proprietary outcomes database, management believes that CNSR California has the potential to identify new uses for existing drugs and drug combinations. CNSR California intends to enter into relationships with established drug and biotechnology companies to further explore these opportunities.

On January 16, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with CNSR California, and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary ("MergerCo") pursuant to which we agreed to acquire CNSR California in a merger transaction wherein MergerCo would merge with and into CNSR California, with CNSR

California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed, CNSR California became our wholly-owned subsidiary, and on the same date we changed our corporate name from Strativation, Inc. to CNS Response, Inc.

PRINCIPAL TERMS OF THE MERGER

At the Effective Time of the Merger (as defined in the Merger Agreement, as amended on February 23, 2007), MergerCo was merged with and into CNSR California, the separate existence of MergerCo ceased, and CNSR California continued as the surviving corporation at the subsidiary level. We issued an aggregate of 17,744,625 shares of our common stock to the stockholders of CNSR California in exchange for 100% ownership of CNSR California. Additionally, we assumed an aggregate of 8,407,517 options to purchase shares of common stock and warrants to purchase shares of common stock on the same terms and conditions as previously issued by CNSR California.

Immediately prior to the closing of the Merger, we had outstanding 868,823 shares of common stock. Immediately after the closing of the Merger, and without taking into consideration the Private Placement offering described below, we had 18,613,448 outstanding shares of common stock, and options and warrants to purchase 8,407,517 shares of common stock.

PRIVATE PLACEMENT TRANSACTION

On March 7, 2007, simultaneous with the closing of the Merger, we received gross proceeds of approximately $7,008,450 in a private placement transaction (the "Private Placement") with institutional investors and other high net worth individuals ("Investors"). Pursuant to Subscription Agreements entered into with these Investors, we sold 5,840,374 Investment Units, at $1.20 per Investment Unit. Each "Investment Unit" consists of one share of our common stock, and a five year non-callable warrant to purchase three-tenths of one share of our common Stock, at an exercise price of $1.80 per share (the "Investor Warrant"). We may agree to sell additional Investment Units for a period of 45 days following March 7, 2007, so that the gross proceeds from the offering may be in excess of $7,008,450.

We agreed to file a registration statement covering the resale of the common stock and the common stock underlying the warrants sold in the Private

Placement within 45 days of the closing of the Merger pursuant to the Subscription Agreement entered into with each Investor.

After commissions and expenses, we received net proceeds of approximately $6,172,000 in the Private Placement.

Brean Murray Carret & Co. ("Brean Murray") acted as placement agent and corporate finance advisor in connection with the Private Placement. For their services as placement agent and financial advisor, pursuant to the terms of an Engagement Agreement between CNSR California and Brean Murray, Brean Murray received a retainer in the form of 74,074 shares of our common stock (having a deemed value of $100,000) upon the closing of the Private Placement. We also paid Brean Murray a fee equal to 8% of the funds raised in the Private Placement, or approximately $560,000 of the gross proceeds from the financing. In addition, Brean Murray received warrants (the "Placement Agent Warrants") to purchase shares of our common stock in amounts equal to (i) 8% of the shares of common stock sold by Brean Murray in the Private Placement (467,230 warrants at an exercise price of $1.45 per share), and (ii) 8% of the shares underlying the Investor Warrants sold by Brean Murray in the Private Placement (140,169 warrants at an exercise price of $1.80 per share). The Placement Agent Warrants are fully vested and have a term of 5 years. We also paid $86,000 in costs, fees and expenses incurred by Brean Murray in connection with the Private Placement. We expressly assumed CNSR California's agreement with Brean Murray upon the closing of the Merger. Pursuant to this agreement, Brean Murray has a right of first

refusal to represent us in certain corporate finance transactions for a period of one year following the closing of the Private Placement.

REGISTRATION RIGHTS AGREEMENTS

Under the terms of the Subscription Agreements between us and the Investors in the Private Placement, we are obligated to file a Registration Statement on Form SB-2 with the Securities and Exchange Commission (the "SEC") within 45 days following the closing (the "Registration Statement") to permit the resale of the shares of common stock sold in the Private Placement and purchasable under the warrants sold in the Private Placement. We will register the shares on the Registration Statement for resale by those persons who purchased Investment Units in the Private Placement pro rata based on such person's percentage interest in the total number of Investment Units sold in the Private Placement.

The Subscription Agreements also require us to use our reasonable best efforts to obtain the effectiveness of the Registration Statement not later than 150 days after the closing of the Private Placement, subject to certain exceptions. After obtaining the effectiveness of the Registration Statement, we are further obligated to use our reasonable best efforts to maintain the effectiveness of the Registration Statement until all such shares registered thereby may be sold without restriction pursuant to Rule 144(k) promulgated under the Securities Act of 1933, except that investors may not be able to sell their shares under the Registration Statement during periods when we may be required to update the information contained in that Registration Statement under applicable securities laws. If we fail to satisfy our obligations for obtaining effectiveness of the Registration Statement within 150 days after the closing of the Private Placement we must pay liquidated cash damages to the investors in the offering in an aggregate amount equal to 1% of the Investment Unit purchase price for each share registered, per month that elapses after such failure until the earlier of (a) the date the Registration Statement is filed or becomes effective, as applicable, or (b) the date that is one year from the closing of the Private Placement.

Under the terms of a Registration Rights Agreement entered into between us and the majority stockholders of our common stock immediately prior to the Merger, we are also obligated to include up to 767,103 shares of our common stock on the Registration Statement described above. The registration rights attaching to the shares held by these stockholders are not transferable with such shares. Our majority stockholders have identical registration rights to those provided to the investors, except they do not have the right to liquidated damages as provided in the Subscription Agreements.

In addition to the registration rights described above, the holders of the shares (i) sold in the Private Placement, (ii) issuable upon exercise of the Investor Warrants, (iii) held by the our majority stockholders prior to the Merger, (iv) issuable upon exercise of the Placement Agent Warrants or otherwise under the Engagement Agreement with the Placement Agent, and (v) issued upon conversion of CNSR California Series A Preferred Stock, CNSR California Series B Preferred Stock and certain shares of CNSR California Common Stock under the terms of the Merger Agreement, each have piggy-back registration rights with respect to such shares effective six months following the closing of the Private Placement, and demand registration rights with respect to such shares effective one year following the closing of the Private Placement.

Copies of the form of Subscription Agreements and the Registration Rights Agreements are attached to this report as Exhibits 10.4, 10.6 and 10.7, respectively, and are incorporated herein by reference.

CNSR CALIFORNIA FUNDINGS PRIOR TO THE MERGER

Since its inception, CNSR California has raised approximately $8.2 million in equity financing. This amount includes the Senior Secured Debt Financings, Settlement Agreement Financing, Mezzanine Financing, and the Note Conversion Transaction discussed below.

SENIOR SECURED DEBT FINANCING

From January 2000 through July 2006 CNSR California was primarily financed through the sale of promissory notes secured by substantially all of the assets of CNSR California and warrants to purchase CNSR California common stock pursuant to the terms of Note Warrant and Purchase Agreements between investors and CNSR California. Through 2006, CNSR California received proceeds of approximately $3,120,000 from the sale of these notes and warrants. The aggregate principal amount of the notes sold was approximately $3,117,000. Substantially all of these notes were converted into CNSR California common stock in October 2006. See the section below captioned "NOTE CONVERSION TRANSACTION."

NOTE CONVERSION TRANSACTION

In October 2006, CNSR California and the holders of certain promissory notes agreed to convert such notes with an aggregate outstanding balance of $3,061,700 and related accrued and unpaid interest of $1,005,300 at September 30, 2006, into 5,189,294 shares of CNSR California's Series A-1 Preferred Stock, and 804,221 shares of CNSR California's Series A-2 Preferred Stock. At the closing of the Merger, the aforementioned shares converted into an aggregate of 5,993,515 shares of our common stock.

SETTLEMENT AGREEMENT FINANCING

In August and September 2006, certain employees and consultants to whom CNSR California owed an aggregate of $3,199,400 forgave approximately 80% of the debt and accepted 5,834,117 shares of CNSR California's common stock, and warrants and options to purchase an aggregate of 270,638 shares of CNSR California's common stock at $0.59 per share in full settlement of CNSR California's remaining obligations. At the closing of the Merger, the aforementioned shares and warrants were converted into 5,834,117 shares of our common stock and warrants and options to purchase an aggregate of 270,638 shares of our common stock at $0.59 per share.

MEZZANINE FINANCING

In October 2006, CNSR California sold 1,905,978 units (each, a "Mezzanine Unit") in a private financing resulting in net proceeds of $1,925,000. Each Mezzanine Unit consisted of one share of CNSR California's Series B Preferred Stock and a 5-year warrant to purchase 0.6 shares of CNSR California's common stock at $1.51 per share. At the closing of the Merger, the aforementioned shares and warrants were converted into 1,905,978 shares of our common stock and a warrant to purchase an aggregate of 1,138,835 shares of our common stock at $1.51 per share on or before October 6, 2011.

TRANSACTIONS SURROUNDING THE MERGER

REVERSE MERGER TRANSACTION FEE

Pursuant to the terms of the Merger Agreement, we paid an advisory fee of $475,000 to Richardson & Patel, LLP in connection with the Merger upon the closing of the Private Placement.

CNS RESPONSE, INC. STOCKHOLDER INDEMNIFICATION

Under the terms of the Merger Agreement and an arrangement with our majority stockholders immediately prior to the Merger, these stockholders have agreed to indemnify us against certain third party claims made against us related to our operation from the time they became stockholders through the consummation of the Merger.

CONVERSION OF NUPHARM DATABASE, LLC PROMISSORY NOTE

In connection with the consummation of an asset purchase transaction in

January 2000, by and between Mill City/CNS, LLC and NuPharm, Mill City issued to NuPharm Database, LLC a certain Promissory Note dated January 11, 2000 (the "Original NuPharm Note") pursuant to which Mill City was obligated to pay NuPharm an aggregate principal amount of $299,923.00 together with interest pursuant to the payment schedule set forth in the Original NuPharm Note. In January 2000, Mill City contributed substantially all of its assets, including those securing the Original Note, to CNSR California, and CNSR California assumed certain debts and obligations of Mill City, including Mill City's obligations under the Original NuPharm Note.

In October 2006, CNSR California entered into an agreement with NuPharm to cancel the Original NuPharm Note in consideration for the extension of the expiration date of a Warrant to purchase CNSR California Common Stock held by NuPharm and a new promissory note in the principal amount of $287,423 (the "New NuPharm Note"). Upon the closing of the Private Placement and Merger, the principal and accrued interest through December 31, 2006 on the New NuPharm Note automatically converted into 242,513 shares of our Common Stock.

Immediately upon extension of the of the NuPharm Warrant, NuPharm exercised the NuPharm Warrant to purchase 2,800,000 shares of CNSR California common stock for total proceeds of $147,700. At the closing of the Merger, the aforementioned shares converted into an aggregate of 2,800,000 shares of our common stock.

RESULT OF THE MERGER AND PRIVATE PLACEMENT TRANSACTIONS

After the completion of the Private Placement and the Merger, we have an aggregate of 24,692,190 shares of common stock outstanding, with the former CNSR California shareholders and the investors in the Private Placement owning in the aggregate 23,584,999 shares of our common stock, which represents approximately 96.5% of our issued and outstanding shares of common stock. Our stockholders immediately prior to the Merger and Private Placement owned approximately 3.5% of our outstanding common stock (or, 868,823 shares of our common stock) immediately after completion of these transactions.

The issuance of our shares of common stock in the Merger was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(2) thereof and an exemption from registration contained in Regulation D. The issuance of shares of common stock and the warrants to the Investors in the Private Placement, and the issuance of the Placement Agent Warrants were completed pursuant to an exemption from registration contained in Regulation D. The shares of our common stock and shares of common stock issuable pursuant to the issued warrants may not be offered or sold in the United States unless they are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. No registration statement covering these securities has yet been filed with the SEC or with any state securities commission in respect of the Merger or the Private Placement.

On March 9, 2007, we filed a press release announcing the closing and the completion of the Merger and the Private Placement, a copy of which is attached to this Current Report on Form 8-K as Exhibit 99.1.

Except for the Merger Agreement, as amended, and the transactions contemplated by that agreement, neither CNSR California, nor the directors and officers of CNSR California serving prior to the consummation of the Merger, nor any of their associates, had any material relationship with us, or any of our directors and officers, or any of our associates prior to the merger.

We are presently authorized under our Certificate of Incorporation to issue 750,000,000 shares of common stock, par value $0.001 per share. As of the closing of the Merger and after the first closing of the Private Placement, we had 24,692,190 shares of common stock issued and outstanding and 10,767,028 shares of common stock reserved for issuance pursuant to issued and outstanding options and warrants to purchase shares of our common stock.

NEW OFFICERS AND DIRECTORS

Pursuant to the Merger Agreement our former sole director, Mr. Silas Phillips, resigned effective as of the closing of the Merger on March 7, 2007, and the following directors were appointed:

Leonard J. Brandt
David B. Jones
Jerome Vaccaro, M.D.

See ITEM 5.02 "DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS."

Also effective as of the closing of the Merger on March 7, 2007, Mr.

Silas Phillips resigned as Chief Executive Officer, Chief Financial Officer and Secretary and the following officers were appointed by the Board of Directors:

NAME	AGE	POSITION
Leonard J. Brandt	50	President, Chief Executive Officer and Secretary
Horace Hertz	57	Chief Financial Officer

On January 24, 2007, we filed an Information Statement on Schedule 14f-1 reporting the proposed Merger with CNSR California and the pending change in the majority of the board of directors at the closing. There are no arrangements or understandings among members of both the former and new control groups and their associates with respect to the election of directors or other matters.

DESCRIPTION OF THE BUSINESS

With respect to this discussion, the terms "we" "us" "our" "CNSR" and the "Company" refer to CNS Response, Inc., a Delaware corporation and its wholly-owned subsidiary CNS Response, Inc., a California corporation ("CNSR California").

GENERAL

Founded in 2000, and located in Costa Mesa, California, our business is focused on the commercialization of a patented system that aids physicians in the identification and determination of appropriate and effective medications for patients with certain behavioral (mental or addictive) disorders. Our technology provides medical professionals with medication sensitivity data for a subject patient based upon the identification and correlation of treatment outcome information from other patients with similar neurophysiologic characteristics which are contained in a proprietary outcomes database. This methodology, called "Referenced-EEG" or "rEEG" represents an innovative approach to identifying effective medications for patients suffering from debilitating behavioral disorders. Referenced-EEG and rEEG are registered trademarks of CNSR.

Traditionally, prescription of medication for the treatment of behavioral disorders (such as depression, bipolar disorders, eating disorders, addiction, anxiety disorders, ADHD and schizophrenia) has been primarily based on symptomatic factors, while the underlying physiology and pathology of the disorder is rarely able to be analyzed, often resulting in multiple ineffective, costly, and often lengthy, courses of treatment before effective medications are identified. Some patients never find effective medications. We believe that rEEG offers an improvement upon traditional methods for determining an effective course of medication because rEEG is designed to correlate the success of courses of medication and medication combinations, with the neurophysiological characteristics of a particular patient.

In addition to its utility in providing psychiatrists and other physicians with medication sensitivity guidance, rEEG provides us with significant opportunities in the area of pharmaceutical development. rEEG, in combination with the information contained in the rEEG database, has the potential to be able to identify novel uses for, and novel combinations of, neuropsychiatric medications currently on the market and in late stages of clinical development, as well as aid in the identification of neurophysiologic characteristics of clinical subjects that may be successfully treated with neuropsychiatric medications in the clinical testing stage. We intend to enter into relationships with established drug and biotechnology companies to further explore these opportunities.

The initial technology, upon which rEEG is based, was originally developed by an M.D. Pathologist/ Psychiatrist as well as a clinical Psychiatrist in response to observations within their practice. They partnered and formalized their activities into NuPharm Database, LLC, for the purpose of facilitating investment in 1999. At the time of its formation, these founding physicians assigned all of their rights in the technology to NuPharm.

CNSR California was incorporated in California on January 11, 2000, for the purpose of acquiring and commercializing the rEEG technology. The patent application for the primary technology was acquired from Mill City/CNSR, LLC, a Minnesota limited liability Company in January 2000 pursuant to the terms of a Contribution and Subscription Agreement which provided for the issuance of 1,000,000 shares of CNSR's common stock to Mill City in exchange for all of its assets. Mill City had previously acquired all of NuPharm's assets pursuant to an Asset Purchase Agreement.

THE CHALLENGE AND THE OPPORTUNITY

The "CNS" in CNS Response, Inc. refers to the central nervous system, the largest part of the nervous system and includes the brain and spinal cord - organs fundamental to behavioral control. Often referred to as mental illness, behavioral disorders have accounted for 7.4% of the total increase in health care spending from 1987-2000, and they are second among the 15 conditions that contributed the most to rising health care spending over this period (behind only heart disease at 8.1%).(1)

More than one out of five adolescents, adults or senior adults, representing more than 60 million people collectively, have mental or addictive illness, an epidemic by any measure.(2) In any given year, only half of this population receives some care for their problem.(3) The market for pharmaceuticals to treat central nervous system disorders in the United States is measured at more than $44 billion ($68 billion worldwide) or 23% of total annual pharmaceutical sales.(4) Unfortunately, the vast majority of these expenditures are not based on blood tests, CT scans, or any objective measurement of the system being treated. Dr. Steven Hyman, Director of the National Institute of Mental Health from 1996 to 2002 stated:

> "IN MOST BRANCHES OF MEDICINE, PHYSICIANS CAN BASE THEIR DIAGNOSIS ON OBJECTIVE TESTS: A DOCTOR CAN EXAMINE X-RAYS TO SEE IF A BONE IS BROKEN, FOR EXAMPLE, OR CAN EXTRACT TISSUE SAMPLES TO SEARCH FOR CANCER CELLS. BUT FOR SOME COMMON AND SERIOUS PSYCHIATRIC DISORDERS, DIAGNOSES ARE STILL BASED ENTIRELY ON THE PATIENT'S OWN REPORT OF SYMPTOMS AND THE DOCTOR'S OBSERVATIONS OF THE PATIENT'S BEHAVIOR." (5)

Collectively, the industry has been waiting to understand the physiology of behavioral disorders, with the hope of finding an approach that utilized objective patient data with prescriptive therapy.

Fueling the increase in spending are patients deemed to be "Treatment-Resistant," typically defined as failing two or more trials of standard of care therapies of adequate dose and duration. Treatment costs for such patients are exceedingly high. For example, those in treatment-resistant depression reach $10,000 annually for patients treated on an outpatient basis only, and more than $40,000 annually for those treated on an inpatient basis.(6) Based on conversations with managed behavioral health care organization (MBHO) executives, the Company estimates that approximately 10% of patients represent 35-40% of MBHOs' patient costs, with the overwhelming majority deemed treatment-resistant cases. MBHOs manage an estimated 210 million lives in the U.S. alone, with 115 million covered by four organizations: Magellan, Value Options, United Behavioral Health and CIGNA Behavioral Health.(7)

Historically, the practice of psychiatric medicine has been operated subjectively, with treatment decisions involving powerful neuropsychiatric medications being prescribed with little or no understanding of the underlying physiology of each patient.(8) Modern medicine has been successful in establishing etiology and finding effective therapy for only a relatively small group of mental abnormalities(9) and has, therefore, necessarily had to rely on symptomatic diagnoses to make course of

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(1) Moran, Mark, MANY MORE PEOPLE SEEKING MH TREATMENT SINCE 1980S. Psychiatric News 39-19 at 15 (October 1, 2004).

(2) See SUPRA note 4 at xii.

(3) Id. at viii.

(4) See SUPRA note 2.

(5) Hyman, Steven. E., DIAGNOSING DISORDERS:PSYCHIATRIC ILLNESSES ARE OFTEN HARD TO RECOGNIZE, BUT GENETIC TESTING AND NEUROIMAGING COULD SOMEDAY BE USED TO IMPROVE DETECTION, Scientific American, (3): 96-103 (September 2003).

(6) Crown, W.H., Finkelstein, S., Berndt, E.R., Ling, D., Poret, A.W., Rush, A.J., and Russell, J.M.. THE IMPACT OF TREATMENT-RESISTANT DEPRESSION ON HEALTH CARE UTILIZATION AND COSTS, 63(11):963-71 (November 2002).

(7) Open Minds Yearbook of Managed Behavioral Health Market Share in the United States, 1998-1999, at 10-12 (Gettysburg, PA. 1999).

(8) Gardner, R., SOCIOPHYSIOLOGY AS THE BASIC SCIENCE OF PSYCHIATRY, Journal Theoretical Medicine and Bioethics, 18-4 at 335-356 (December, 1997).

(9) Breggin, P., R., M.D., Toxic Psychiatry: Why Therapy, Empathy and Love Must Replace the Drugs, Electroshock, and Biochemical Theories of the "New Psychiatry", at 291 (St. Martin's Press, 1991).

treatment decisions. The prevalence of the prescription of multiple courses of ineffective medications for patients suffering from mental disorders, coupled with the attendant economic inefficiencies of the practice of Psychiatry in this manner demands a logical alternative.

Behavioral disorders are common in the United States and internationally. An estimated 26.2 percent of Americans ages 18 and older -- about one in four adults -- suffer from a diagnosable mental disorder in a given year.(10) The market for pharmaceuticals to treat central nervous system disorders is more than $42 billion in the United States and is the largest market segment of pharmaceutical sales, surpassing pharmaceuticals to treat cardiac disease, cancer and diabetes.(11) Traditionally, prescription of medication for the treatment of these disorders has been based on symptoms, while the underlying physiology and pathology of the disease has rarely been addressed. This can result in multiple ineffective, costly and often lengthy courses of treatment before effective medications are identified, if at all.

OUR SOLUTION

rEEG is a historical outcomes-based information treatment tool personalized to the functional imbalance of a patient's brain. We believe rEEG to be the first broad-based objective, quantitative, neurophysiologic biomarker system for facilitating appropriate and effective treatment for patients suffering from behavioral (mental or addictive) disorders. In the past year, psychiatrists in twelve states have used this system to guide treatment of their treatment-resistant patients.

With a rEEG report, a physician (a "Client-Physician") can obtain neuropsychiatric medication sensitivity and resistance data for individuals that have brain abnormalities (abnormalities of electrical power distribution in the brain) similar to that of their patient. The compelling clinical results and economics demonstrated in multiple studies completed by either CNSR or independent parties provide the basis from which, we believe, rEEG will become a standard for guidance of psychiatric treatment of treatment-resistant patients. See Section captioned "OUR BUSINESS - REEG CLINICAL TRIALS" for a review of existing clinical data.

Over the course of the last twenty years the Company and its scientific founders have collected treatment outcomes for patients using various medications where the patients' brain function was first measured with an EEG. CNSR has correlated the EEG features with courses of treatment and outcomes information provided by Client-Physicians. This information has been subsequently assembled and organized into a proprietary database that we refer to as the "rEEG Outcomes Database". As of November 8, 2006, the rEEG Outcomes Database contained outcomes for over 2000 patients and more than 13,000 treatment trials of medications on these patients.

Using the rEEG analysis method and the information contained in the rEEG Outcomes Database, CNSR can provide a report (an "rEEG Analytical Report") to a Client-Physician identifying medication groups (such as antidepressants, stimulants, anticonvulsants and beta blockers), medication subgroups such as antidepressant subgroups of SSRI's (selective serotonin reuptake inhibitors, an example of which is Prozac), TCA's (tricyclic antidepressants, an example of which is Desipramine), SNRI's (serotonin-norepinephrine reuptake inhibitors, an example of which is Cymbalta). Further, and most importantly, CNSR's statistical models in combination with the rEEG Outcomes Database indicates which specific medications within these subgroups (such as Zoloft, Prozac, Elavil, Wellbutrin, Effexor) are the most effective for patients whose EEGs evidence similar characteristics to that of the subject patient.

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(10) National Institute of Mental Health, The Numbers Count: Mental Disorders In America (2006), http://www.nimh.nih.gov/publicat/numbers.cfm#Intro.

(11) IMS Health (NYSE: RX), IMS Retail Drug Monitor April 2006, http://www.imshealth.com/vgn/images/portal/cit_40000873/56/43/78335031IMS%20Retail%20Drug%20Monitor%20April2006.pdf.

Psychiatric treatment guided by rEEG has been shown, in independent studies, to be significantly more efficacious than previous treatment practices. See Section captioned "OUR BUSINESS - REEG CLINICAL TRIALS." Physicians that have utilized such reports to inform their treatment strategies identify such reports as 'essential' or 'significantly helpful' in approximately 75% of patients treated based upon the information contained in the rEEG Analytical Report. The vast majority of subject patients for whom we have created rEEG Analytical Reports have been identified by their physicians as "treatment-resistant," generally understood to be the most challenging, high-risk and expensive category of patients to treat.(12) Typically, less than 25% of such patients find success in their next treatment efforts.(13) Management believes that rEEG provides Client-Physicians with a unique tool that can dramatically improve treatment outcome based on a patient's own

neurophysiology.

REEG METHOD

CNSR's rEEG method consists of the following four integrated components:

Digital EEG	+	Quantitative Normative Analysis	+	Quantitative rEEG Outcomes Analysis	+	EEG / Medication Correlations

1. Digital Electrocephalogram ("EEG")

The first step in the rEEG process is a standard digital EEG recording. An EEG is a non-invasive, painless procedure where a cap of twenty electrodes records the electrical output of the brain while the patient is awake, but resting with their eyes closed. The recording normally takes between 20 and 45 minutes. An EEG is a common, standardized procedure in neurology, often used in diagnosis of epilepsy or other neurological disorders such as brain tumor, stroke, encephalopathy etc.

2. Quantitative Normative Analysis

The electrical output at each of the twenty leads is "Fast Fourier" transformed (a mathematical technique useful in wave analysis) into a spectrum of electrical power output at various frequency ranges. One standard approach transforms these waves into defined frequency ranges, or bands, labeled Delta, Theta, Alpha and Beta. Output of these four levels of frequency can be compared among the twenty leads. Standard comparisons include electrical power of each of these bands on an absolute and relative power basis (% of the total power output). Also, comparison of various leads can be made for symmetry and coherence (a measure of the phase of the energy output). Each of these measurements (or groups of measurements) in a patient can be compared to values for asymptomatic people (norms) of the same age and noted when they are outside of standard normal ranges.

Analysis of the rEEG outcomes database has shown that certain abnormal indications identifiable in an EEG (individually or in combination) are indicators of probable response to different medication classes and individual medications. We refer to these as "biomarkers". We have

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(12) Dewan, M.J., and Pies, R.W., The Difficult-to-Treat Psychiatric Patient, at 37, American Psychiatric Publishing, Inc. (September 2002).

(13) Rush, A.J., Trivedi, M.H., Wisniewski, S.R., Nierenberg, A.A., Stewart, J.W., Wadren, D., Niederehe, G., Thase, M.E., Labori, P.W., Lebowitz, B.D., McGrath, P.J., Rosenbaum, J.F., Sackheim, H.A., Kupfer, D.J., Luther, J., and Fava, M., ACUTE AND LONGER-TERM OUTCOMES IN DEPRESSED OUTPATIENTS REQUIRING ONE OR SEVERAL TREATMENT STEPS: A STAR*D REPORT. Am. J. Psychiatry; 163: 11, 1905-1917.

identified a significant group of biomarkers that have shown relevance and we calculate their value for each patient. We then examine the history of treatment response to specific medications for patients with similar patterns of abnormality in these biomarkers and compute a projected sensitivity analysis for the current patient using any of the specific medications or medication classes where we have sufficient statistical power.

3. Quantitative rEEG Outcomes Analysis

A core element of rEEG is the rEEG Outcomes Database. This proprietary database consists primarily of patient digital EEGs, medication histories and outcomes collected over a 20 year period. An "outcome" can be defined as a specific measure of change in behavior obtained while taking specific medications. The rEEG Outcomes Database allows for statistical correlation of more than 1,100 individual QEEG measures against medication success, and includes more than 13,000 treatment episodes with outcomes.

4. EEG / Medication Correlations - Computation of Proprietary Variables and application of Correlation Engine

Currently, the rEEG Outcomes Database allows the Company to analyze outcomes related to twenty-seven different medications from the classes of antidepressants, stimulants, anticonvulsants, beta-blockers and food supplements. The Company is continually growing the database and adding additional medications as they become statistically relevant. There are currently seventy-eight medications marketed in the U.S. for depression, anxiety disorders, bipolar disorder, schizophrenia,

obsessive-compulsive disorder (OCD), attention-deficit hyperactivity disorder (ADHD), post-traumatic stress disorder (PTSD), panic disorder, and insomnia. This does not include sixty-one medications now marketed in the United States for the treatment of Alzheimer's, Parkinson's Disease, migraines and Epilepsy.(14)

TREATMENT DECISIONS MADE BY LICENSED PROFESSIONALS

We do not currently operate our own healthcare facilities, employ our own treating physicians or provide medical advice or treatment to patients. The Client-Physicians that contract for our rEEG Analytical Reports own their own facilities or professional licenses, and control and are responsible for the clinical activities provided on their premises. Patients receive medical care in accordance with orders from their attending physicians. Physicians who contract for rEEG Analytical Reports are responsible for exercising their independent medical judgment in determining the specific application of the information contained in the rEEG Analytical Reports, and the appropriate course of care for each patient. Following the prescription of any medication, the Client-Physicians are presumed to administer and provide continuing care treatment.

PROCESS FLOW

The flow chart below details the process of inception to rEEG Analytical Report delivery. Currently, upon receipt of the EEG, a rEEG Analytical Report is generally delivered to the referring physician 3-4 days. We expect that through efficiency improvements, turnaround will be reduced to next day.

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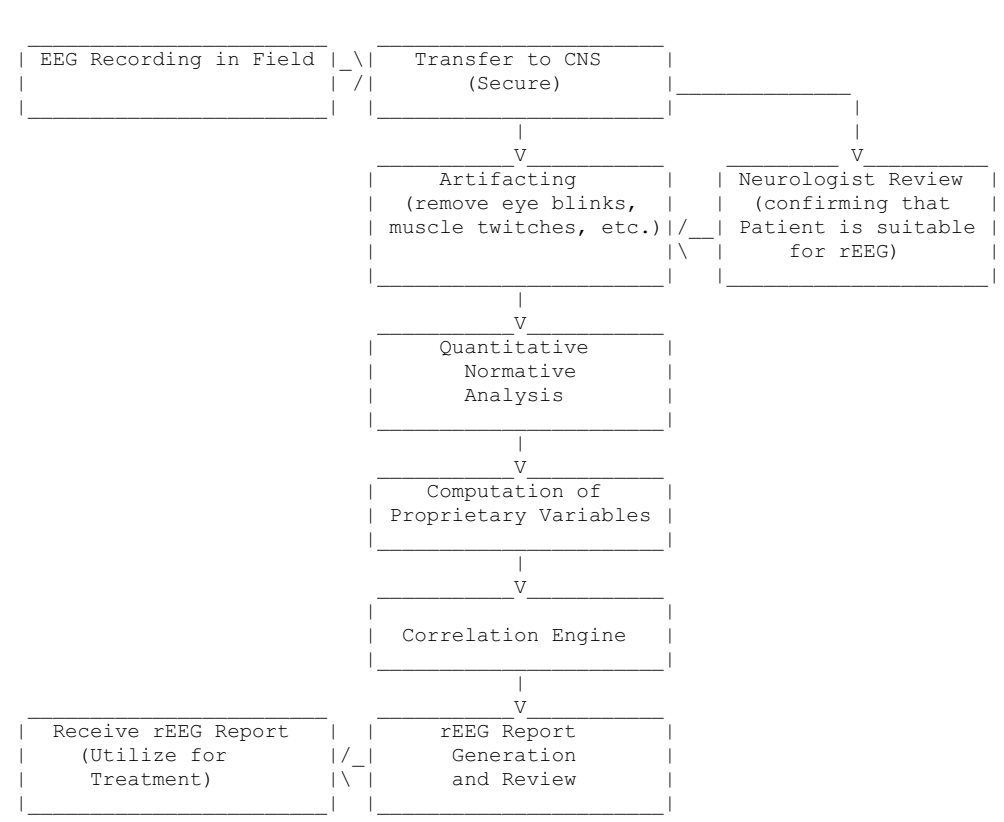
(14) Drug Reference for FDA Approved Psychiatric Drugs, http://neurotransmitter.net/drug_reference.html.



The chart above shows that the first step in the process is collection of a digital EEG from the patient. This may be done at the physician's office or off-site at a testing center. Some physicians own their own equipment for testing while others arrange for technicians to visit their offices for patient appointments. This data is then typically transferred to a secure Health Insurance Portability and Accountability Act ("HIPPA") compliant FTP (File Transfer Protocol) Internet site, although it can also be sent via overnight delivery service. Another early step in the process is artifacting. This is the process of selecting segments of the QEEG record for analysis that are free of electrical distortions caused by muscle movement. Also, early in the process is a conventional review of the EEG by a neurologist or neurophysiologist. This

serves as a quality control step to review the overall quality of the recording and determine whether it is acceptable for rEEG processing. Also at this time, the neurologist/neurophysiologist will author a review of the conventional EEG. This will appear on CNSR's Type I rEEG Report.

OUR TECHNOLOGY AND INTELLECTUAL PROPERTY

REEG PATENTS

We have two issued U.S. Patents which together provide CNSR with the right to exclude others from using the rEEG technology. In addition, these patents cover the analytical methodology utilized by CNSR with any form of neurophysiology measurement including SPECT (Single Photon Emission Computed Tomography), fMRI (Functional Magnetic Resonance Imaging), PET (Positron Emission Tomography), CAT (Computerized Axial Tomography), and MEG (Magnetoencephalography)). We do not currently have data on the utility of such alternate measurements, but we believe they may, in the future, prove to be useful to guide therapy in a manner similar to rEEG. We have also filed patent applications for our technology in various foreign jurisdictions.

REEG TRADEMARKS

We have filed trademark applications in the United States for the following marks: "Referenced-EEG" and "rEEG". We will continue to expand our brand names and our proprietary trademarks worldwide as our operations expand.

REEG OUTCOMES DATABASE

The rEEG Outcomes Database consists of approximately 13,000 clinical outcomes across 2,000 patients who had psychiatric or addictive problems. The CNSR Outcomes database is maintained in two parts:

1. The QEEG Database

The QEEG Database includes EEG recordings and neurometric data derived from analysis of these recordings. This data is collectively known as the QEEG Data. QEEG or "Quantitative EEG" is a standard measure that adds modern computer and statistical analyses to traditional EEG studies.

2. The Clinical Outcomes Database

The Clinical Outcomes Database consists of physician provided assessments of the clinical outcomes of patients and their associated medications. The clinical outcomes of patients are generally recorded using an industry-standard outcome rating scale, such as the Clinical Global Impression Global Improvement scale ("CGI-I"). The CGI-I requires a clinician to rate how much the patient's illness has improved or worsened relative to a baseline state. A patient's illness is compared to change over time and rated as: very much improved, much improved, minimally improved, no change, minimally worse, much worse, or very much worse. In addition, CNSR may utilize specialized scales applicable to specific disorders, including the Beck Depression Inventory and Ham-D scales (Hamilton Depression Rating Scale) for depression and anxiety.

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

We consider the rEEG Outcomes Database to be a valuable trade secret and are diligent about protecting such information. The rEEG Outcomes Database is stored on a secure server and only a limited number of employees have access to it. Any individual that is provided with access to the database is required to enter into a strict confidentiality agreement.

OUR CURRENT OPERATIONS -- LABORATORY INFORMATION SERVICES

We provide rEEG analysis in a relationship analogous to the support other physicians have from a reference laboratory or radiology center. Physicians send us the QEEG data, and we return an analytical report for a standard charge. This revenue model requires minimal training or impact on their current operation and is one that physicians readily understand. In some cases, we also provide the actual patient testing for acquisition of the QEEG data.

Our revenues are currently derived primarily from our Laboratory Information Services business. We currently offer rEEG Analytical Reports

produced by our laboratory based on QEEG data supplied by the physician or an independent testing service. There are two primary types of analysis available.

TYPE I ANALYSIS

Type I analysis provides medication sensitivity information based on statistical probability of improved outcomes against neurophyisiologically similar patients. It is considered the baseline measurement where the patient is preferably tested in an unmedicated state, which means the patient abstains from taking neuropsychiatric medications that cross the blood-brain barrier and act on the brain for 5 half-lives (can vary from 1 day for Ambien to 5 weeks for Prozac).

TYPE II ANALYSIS

Type II analysis provides medication sensitivity information based on the changes to the patient's neurophysiology presumed to be from the intervening treatment. It is, therefore, measured while the patient is medicated.

Laboratory Information Services are either: 1) billed to the Client-Physician or 2) billed to the Patient directly. Currently, the vast majority of the rEEG Analytical Reports produced are billed to the Client-Physician. We bill our Client-Physicians on a monthly basis.

Typically, after a 90 day medication regime guided by the Type I rEEG, a Type II rEEG will be ordered if the desired outcome has not been achieved. This follow-up analyzes changes post-medication in the patient's physiology, and facilitates the preparation of an rEEG Report with data useful for determining medication dose adjustment, alternative medicine selection or additional medication augmentation. Because our Type I analysis has shown strong efficacy in guiding successful medication of subject patient's disorders, we expect that requests for Type II analysis will remain at their current levels.

OUR CURRENT MARKETS

CURRENT APPLIED DISORDERS

In the last 12 months, physicians in twelve states have used rEEG in their practice. A series of eight studies involving rEEG have been conducted over the last several years cumulating 500 patients. See Section captioned "Clinical Validation." All studies, which involved most major categories of psychiatric disorders (except for schizophrenia), have shown rEEG to be demonstrably effective in guiding treatment. To date, these studies have addressed the efficacy of rEEG with respect to the following behavioral disorders:

- Attentional disorders (including Attention Deficit Disorder ("ADD")/Attention Deficit Hyperactivity Disorder ("ADHD");
- Anxiety disorders;
- Depressive disorders;
- Bipolar disorders;
- Impulse control disorders;
- Post Traumatic stress disorder;
- Compulsive and obsessive disorders;
- Eating Disorders (including anorexia nervosa and bulimia nervosa); and
- Addictive Disorders (including drug and alcohol abuse)

PRIVATE PAYERS

Currently, a large majority of our rEEG Analytical Reports are paid for directly by patients.

Insurance coverage for treatment of behavioral disorders varies significantly. Many health plans limit coverage for mental health benefits by imposing co-payments, deductibles or limits on outpatient visits that are more restrictive than those placed on physical illness. Many times these benefits do not extend to addiction treatment. Lack of or limitations on insurance coverage

or exhaustion of insurance coverage often result in patients needing to pay privately for treatment of behavioral disorders.

Another reason patients pay privately is that access to plan psychiatrists may be limited, requiring patients to seek non-plan psychiatrists that only accept direct patient payment. Occasionally, a patient receiving care from a health plan psychiatrist may become disappointed with the amount of time they are able to spend with that physician. They may prefer to pay privately in order to obtain more physician time and attention.

Because of the nature of a behavioral disorder, many patients seek out private pay psychiatrists as a result of a desire for greater anonymity. Some patients are concerned about filing reimbursement claims with their employer's health benefit program, especially in cases where they may not want their employer to know of their affliction (e.g. addiction, Attention Deficit Disorder, Obsessive-compulsive Disorder, Impulse Control Disorder).

Still other patients are seeking the best quality of care without concern for reimbursement. Psychiatrists that accept private pay generally are able to receive a higher hourly rate from private pay patients than most health plan provide. As a psychiatrist develops a reputation for quality service they may be able to focus their practice on private pay patients to a greater degree. It is this reputation for quality service that may attract some of the patients seeking best quality of care.

For these reasons and more there are a large number of psychiatrists that accept only patients paying privately for their services. CNSR has estimated that these psychiatrists treat approximately 40% of the treatment resistant patients, which comprises 2 million people in any given year or a potential annual market of $1.2 billion with present pricing.

MANAGED BEHAVIORAL HEALTH ORGANIZATIONS/MANAGED CARE PAYERS

Currently, only a small portion of our rEEG Analytical Reports are paid for by insurers or managed healthcare companies.

Many insurance/managed health care companies and many self-insuring employers providing behavioral health benefits seek to manage these services and expenditures through separate entities (MBHOs) that focus exclusively on managing the mental health benefit. MBHOs are separate entities such as Magellan Health Services or ValueOptions, Inc. or subsidiaries of larger healthcare management organizations such as United Behavioral Health or CIGNA Behavioral Health.

MBHOs have developed contracted networks of behavioral health specialists to service the needs of their insured members. Various policies for patients and providers help to efficiently deliver the behavioral health benefit. Employers that contract with MBHOs don't necessarily seek the lowest cost of care. Often, the employer's goals are to minimize absenteeism, disruption to their processes or time lost as a result of employee disabilities and prefer to contract with MBHO's that can deliver a better quality of care, accomplishing these goals. Employers may contract directly with an MBHO or utilize MBHO's as part of the total health care managed care contract.

Based on our conversations with MBHO managers, we estimate that a small subset (10%-15%) of those that seek treatment in any year account for a disproportionately high percentage (30%-45%) of the total medical costs paid out by MBHOs. These are typically the treatment resistant patients. In addition to being burdensome on the MBHO's, these patients are also typically more expensive to their primary health insurer as compared to other patients because of their higher use of emergency room services, pharmaceuticals (which are often not managed by the MBHO), and use of medical services associated with physical ailments.

We estimate over 1 million patients covered by MBHOs in any given year are candidates for rEEG Report guidance. At present pricing this represents an annual market opportunity of $600 million.

TOTAL MARKET PERSPECTIVE

A 2004 Harris Interactive Poll stated that "an estimated 59 million people, or more than one in four U.S. adults, have received some form of mental health treatment in the past two years. The vast majority of these people -- an estimated 48 million -- are being treated with prescription medication. Medications are clearly the dominant form of mental health treatment in America, the survey found" (as reported in HEALTH DAY NEWS, May 5, 2004). The poll also estimated another 24 million people needed but were not getting help because they had given up on treatment or never pursued treatment. We estimate our market opportunity for our Laboratory Information Services with respect to central nervous system disorders to be in excess of $1.5 billion.

PRICING

We typically charge $400.00 to physicians for a Type I rEEG Report, our standard report, which reflects EEG data obtained while a patient is off of medications. Occasionally, physicians encounter patients that cannot tolerate the discontinuation of their current medications to have a standard Type I test. For these patients, we have a special report, Type I(m), which reflects EEG data obtained while the patient is medicated with a medication that is in the rEEG Outcomes Database. By estimating the likely EEG effect from the medication, we can estimate the rEEG parameters of an unmedicated brain and issue a report based on such estimation. Pricing to the physician for Type I(m) reports are $800.

Type II testing is for patients that have a baseline Type I test on record and have been medicated. A Type II rEEG Report compares changes in neurophysiology from the Type I test data. We currently charge $200.00 for a Type II rEEG Report.

Because the primary tasks of rEEG analysis are computer automated, direct costs of processing are relatively low. Currently, CNSR contracts with a neurophysiologist to supply a conventional review of and commentary on a patient's EEG test. CNSR also contracts with outside services to select artifact-free (an eye-blink and the corresponding electrical signal from same is an example of an artifact) sections of the recording suitable for rEEG analysis. These services constitute the majority of the direct costs associated with processing a rEEG Type I analysis. We plan to bring both of these functions in-house during 2007, thereby reducing our costs per test, and improving our margins.

CLINICAL VALIDATION

As summarized in a 2005 American Psychiatric Association Poster, reviewing results of rEEG guided treatment in prospective, retrospective, comparative studies and independent physician case series, fairly consistent results were reported. Generally, rEEG guided therapy, when used in conjunction with other standard clinical information has shown the ability to guide physicians to successful outcomes in

70% or more of mostly treatment resistant patients. Various studies in the literature would suggest the current standard of care for treatment success with treatment resistant patients is less than half that rate, and in some cases only 10-15%.(15)

<TABLE>
COMPLETED INDEPENDENT STUDIES AND TRIALS

<CAPTION>

<S>	<C>	<C>	<C>
ADD/Depression Study 100 Patients	Veterans Association Blind Prospective Major Depression Study 13 Patients	CIGNA Treatment-Resistant Field Trial 56 Patients	Davis-Atlanta Case Study 15 Patients
rEEG-Guided Efficacy >80%	rEEG-Guided Efficacy 83%	rEEG-Guided Efficacy 70%	rEEG-Guided Efficacy 100%
Monte Nido Eating Disorder Case Series 81 Patients	Hamilton-Newport Beach Case Series 34 Patients	Hoffmann-Denver Case Series 15 Patients	L'Abri Dual Diagnosis San Diego Case Series 58 Patients
rEEG-Guided Efficacy 83%	rEEG-Guided Efficacy 78%	rEEG-Guided Efficacy 73%	rEEG-Guided Efficacy 93%

</TABLE>

ADD/DEPRESSION STUDY

Prospective study with retrospective analysis.
EFFICACY: >80%

Date: 1995. The initial formalized trial consisted of 100 patients of which 46 were diagnosed with ADD and 54 with depression. Conventional thought would have anticipated that the ADD patients would have responded to the stimulants and the depressed patients would have responded to the antidepressants. In this study, those that failed to respond to conventional treatment were treated with non-conventional medications. rEEG correctly identified which patients would respond to which medications over 80% of the time. This study was published in Clinical Electroencephalography.(16)

VETERANS ADMINISTRATION BLINDED PROSPECTIVE MAJOR DEPRESSION STUDY

Randomized, Prospective, Double-Blind Study

Date: 1997-1999. A pilot prospective study of severe and long-term Veterans Administration patients diagnosed with major depressive disorders was conducted under the direction of Dr Art Kling, former Vice-Chairman of the Department of Psychiatry at UCLA. The trial consisted of 13 patients, all diagnosed with depression with average illness duration of 16 years. As measured by all indices used, all patients but one in the rEEG guided treatment group showed significant improvement (86%). In the control group, where patients were treated without the benefit of rEEG, only one of the patients significantly improved based upon physician-guided medication selection (17%), and as it turned out, this patient received the class of medication that rEEG predicted would most benefit the patient need even though this knowledge was not available to the physicians in the control group. This study has been submitted for publication.

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(15) Dunner, D.L., Rush, A.J., Russell, J.M., Burke, M., Woodard, S., Wingard, P., and Allen, J., PROSPECTIVE, LONG-TERM, MULTICENTER STUDY OF THE NATURALISTIC OUTCOMES OF PATIENTS WITH TREATMENT-RESISTANT DEPRESSION. J Clin Psychiatry. 67(5):688-95 (May 2006).

(16) Suffin, S. C. and Emory, W. H., CLINICAL ELECTROENCEPHALOGRAPHY, 26(2), 1995.

TREATMENT-RESISTANT PATIENT FIELD TRIAL - CIGNA CO-SPONSORSHIP

A pilot study conducted between 2000 and 2002 with CIGNA Behavioral Health and its network of Atlanta psychiatrists included 56 treatment-resistant patients. All patients had previously failed at least two trials of medication treatments. Utilizing rEEG guidance, 69% of patients were reportedly responsive to identified treatments.

PHYSICIAN CASE SERIES

Six physicians in five different clinical settings covering a wide variety of diagnoses and ages have now reported on treatment results aided by the use of rEEG in their clinics. The physicians received no remuneration of any kind from CNSR and, in most cases, paid or had their patients pay for the test and rEEG analysis. After reporting on their results, a number of these physicians developed a strong desire to instruct other physicians in the use of rEEG, and they have now become regional medical directors with responsibility for training other physicians. These physicians generally reported patient outcomes on the seven-point scale, Clinical Global Improvement Index. Most also reported their subjective assessment of the helpfulness of rEEG in treatment of each patient on a seven-point scale, Clinical Helpfulness Index. These patients had a wide variety of disorders but were generally unresponsive to previous treatment efforts. We are pleased that virtually all reported case series have shown compelling treatment results with 70% to 90% of patients achieving MUCH IMPROVED or VERY MUCH IMPROVED rankings. Equally important, similar levels were reported in the rEEG Helpfulness Index (SIGNIFICANTLY HELPFUL or ESSENTIAL).

MONTE NIDO RESIDENTIAL TREATMENT CENTER

Monte Nido is a small in-patient treatment clinic in Malibu, California, treating patients suffering from significant eating disorders, primarily anorexia nervosa or bulimia. Dr. W. Hamlin Emory is Medical Director of this facility. An initial analysis of treatment results of 81 patients with pharmacotherapy based on rEEG was compared to 10 patients treated by physicians without rEEG and 13 patients who had rEEG testing but decided against medication. 83% of the rEEG guided patient achieved SIGNIFICANT or MARKED improvement. None of the patients in the other two groups achieved this level of improvement. These results were published in a Scientific Poster at the National Institute of Mental Health annual meeting, New Clinical Drug Evaluation Unit Symposium of 2004. The Monte Nido Residential Treatment Center is now seeking long term outcome data through patient surveys. We are looking forward to learning of these results. The initial study was described in a report in 2001.

HAMILTON-NEWPORT BEACH CASE SERIES

Conducted by Dr. Jim Hamilton, a Physician in Newport Beach, CA. In this study, 34 treatment-resistant patients medicated based on information provided in rEEG reports were followed and rated. 19 of the 34 patients had addictive disorders. Only 28 of the 34 cases were analyzed due to the fact that the balance were not available for follow-up. Of the 28 analyzed, in 22 of these 28 cases rEEG was judged to be essential or very helpful in their treatment. In 14 out of these 28 cases, where the rEEG was judged essential, Dr. Hamilton reported that rEEG had directed him "to combinations of medicines that one would never find, or would take years to find after nothing else had worked." In the 19 addiction cases, 4 were lost to follow-up, but in the 15 that were followed, rEEG was judged essential or very helpful in 14 (79%) of the cases.

HOFFMAN-DENVER CASE SERIES

Conducted by Daniel Hoffman, M.D., now a Company Medical Director, with a practice in Denver, CO. This study was conducted prior to Dr. Hoffman becoming the National Medical Director for the Company. In this study, rEEG Analytical Reports were provided for 74 treatment-resistant patients who were then followed, and were rated on both the CGI scale and the "Helpfulness" Index. In 56 (74%) of these cases, rEEG was judged to be essential or very helpful in their treatment. A like percentage reported a much improved or very much improved on the Clinical Global Improvement index.

DAVIS-ATLANTA CASE SERIES

Conducted by T. Albert Davis, M.D., Medical Director at the Florence McDonnell Center in Atlanta. This was Dr. Davis's initial study of 15 patients that he treated with the aid of rEEG Reports. All 15 patients were reported as having successful outcomes with 7 rated as Very Much Improved and 8 rated Much Improved on the CGI scale. In Helpfulness, rEEG was rated essential for 9 of these patients and moderately helpful for six of these patients.

RANCHO L'ABRI DUAL DIAGNOSIS

In this study, 58 "dual diagnosis" (addiction and co-morbid mental illness) patients were treated at Rancho L'Abri, San Diego, one of the most respected in-patient treatment facilities in Southern California. The physicians of Rancho L'Abri described their experience with rEEG in a scientific poster at the 2005 American Psychiatry Association annual meeting. The poster described both CGI rating of Very Much Improved or Much Improved and Helpfulness rating of Essential or Very Helpful in over 90% of the patients for whom it was used.

OUR BUSINESS PLAN - LABORATORY INFORMATION SERVICES

OUR STRATEGY

Our strategy is to provide rEEG analysis in a relationship with a physician that is analogous to that of a reference laboratory. In each geographic market, we plan to support this service with a full-time market manager, identified EEG testing sites and a part-time Regional Medical Director. The Regional Medical Director will provide local medical leadership and training, local market communications, a site for physicians to refer particularly challenging cases and support of family physicians needing specialty consults.

In the next year, we plan to execute initiatives designed to allow for dramatic introduction of rEEG to both treating physicians and their patients in calendar year 2008. We envision this introduction will have elements of pushing demand for rEEG via physician education and pulling demand for rEEG through consumer education. The physician introduction will be accomplished through development of an in-house direct sales force along with professional journal and trade show introduction. The consumer introduction will utilize the major broadcast, print and electronic news media.

Certain initiatives which are being considered for 2007 and 2008 include:

1. EXPAND OUR GROUP OF CLIENT-PHYSICIANS TO INCLUDE MOST MAJOR US CITIES. This key infrastructure development is one element necessary for rapid penetration. rEEG Reports often stimulate the identification of treatment strategies that most

physicians would not typically consider. Physicians often are inexperienced in these treatment strategies, and they

also may be unfamiliar with combinations of medicines that may be suggested by our rEEG Reports. It is valuable for physicians who are not familiar with our rEEG Reports to have an experienced colleague guide them through initial treatments that are facilitated by the use of our rEEG Reports. For physicians that are unfamiliar with our rEEG Reports, their success is dependent on their ability to understand our rEEG Reports and integrate them as another tool of insight to be used in conjunction with their existing training.

2. CONDUCT THREE PILOT PROGRAMS WITH MANAGED CARE PAYERS. We believe that adoption of rEEG for reimbursement is best accomplished through demonstration of its clinical and economic impact with patients in a health plan. In at least one of these pilot programs, CNSR will seek to pay for independent economic and outcome analysis that CNSR will have the right to publish. We are currently in discussions with three MBHOs to conduct our pilot programs.

3. COMPLETE CURRENT MULTI-SITE AND CONDUCT ADDITIONAL ACADEMIC TRIALS. CNSR is beginning a six site, 100 patient, academic controlled, blinded, and randomized study of patients suffering from treatment resistant depression. The study will be conducted at Stanford, Cambridge Hospital-Harvard, University of California - Irvine, University of California - San Diego, University of Texas - San Antonio and University of British Columbia. This study has been designed with significant care by many academicians including members of our advisory board. Because of the involvement of respected academic centers, we believe that the results of the study will be published, and widely disseminated. In addition, we plan to conduct at least two additional clinical trials. We are also advancing designs in dual-diagnosis addiction and bulimia, a treatment resistant depression study of different design and a unique study amongst high performing but challenged college students.

4. IMPROVE SYSTEM TURN-AROUND TO NEXT DAY AND ADD CAPACITY TO COVER PROJECTED VOLUME. We plan to increase the usefulness of our service by returning reports to physicians one day after patient data is submitted to us. To accomplish this task, we will need to improve the coordination of functions related to rEEG analysis that we currently outsource. Our longer term goal is to advance rEEG turn-around time to be "while-you-wait."

5. ENHANCE REPORTS TO PROVIDE QUANTITATIVE BIOMARKER DATA AND DEVELOP PHYSICIAN TRAINING AND CERTIFICATION PROCESS. We plan to advance our training programs this year with the aid of a training CD-ROM which is currently in development. In addition, our next generation rEEG report is anticipated to provide technical data on the set of rEEG biomarkers in a manner that will allow trained physicians to better consider treatment options and integrate their knowledge of clinical assessment and historical treatment experience with the rEEG biomarker data. Our training program will aid physicians' use and understanding of our rEEG Reports. The training process will have the added advantage of communicating to patients and their families that a participating physician has completed rEEG training, and is competent in the use of rEEG Reports to guide treatment.

6. EXPAND REPORTED MEDICATIONS TO INCLUDE ANTIPSYCHOTICS. Antipsychotics are the only significant class of psychotropic medications for which rEEG does not currently offer treatment guidance. Psychosis is one of the most severe mental illness and is also one of the most difficult to treat. We plan to conduct studies to determine if our rEEG Reports are useful in guiding the treatment of psychosis, especially schizophrenia. We have two initiatives to accomplish this objective. The first is a grant from the Washington Technology Center and Washington State University, and the second is with a group in China.

7. ADD KEY LEADERSHIP IN MEDICINE AND MARKETING. We plan to continue to hire, train, retain and motivate additional skilled personnel, particularly managers with experience in growing healthcare companies, sales representatives who are responsible for customer education and training and customer support, as well as personnel with experience in clinical testing and matters relating to obtaining regulatory approvals.

MARKET INTRODUCTION

After accomplishing our immediate goals of building the regional medical leadership and reaching agreement for pilot trials with MBHOs, aggressive national introduction will occur with establishment of that regional leadership, establishment of an introductory sales force, and prepublication release of our treatment-resistant depression or other key study data.

PUSH: By accessing thought leaders in psychiatry at the national and community level, publicizing the clinical benefits in professional and consumer media, and relying on our own dedicated sales force to educate psychiatrists we believe that the compelling benefits and economic efficiency of rEEG guidance will provide large scale physician trial.

Our main promotional strategy with physicians will continue to be "try it, you'll like it - no charge". Because of the low variable cost of producing rEEG Analytical Reports, we can offer free trials to physicians to encourage them to begin to experience the benefits of rEEG. Our current program offers Physicians five (5) free Type I reports with their only commitment being the completion of a consultative review with one of our regional medical directors for each report. We encourage physicians to select their most hard to treat patients for these free trials. It is our expectation that no matter how well conducted our academic trials, physicians need to experience rEEG for themselves. One physician has written a letter to CNSR stating, "I DON'T KNOW THAT I COULD GO BACK TO PRACTICING BLINDED PSYCHIATRY. UNTIL YOU EXPERIENCE HOW DIFFERENT IT FEELS TO PRACTICE THIS WAY, I COULD SEE SKEPTICISM FROM OTHERS." We believe physician trial is the key to adoption of rEEG.

PULL: We intend to utilize major print, broadcast and electronic news media to explain the benefits of rEEG directly to patients. We believe that these media are the most effective and cost-efficient means to pull-in consumer demand for rEEG and that we have an unusual opportunity to develop a large reach at an early stage that can stimulate dynamic demand.

This demand will also encourage physicians to seek early understanding of rEEG and our goal of trial. Assisting patients to find early adopting physicians by providing identification of trained physicians on our web site will likely provide another win- win for patients, physicians and CNSR.

NEW MARKETS

ADDITIONAL APPLICABLE DISORDERS

While physicians have historically classified central nervous system disorders as psychiatric or neurological, the diseases themselves could be characterized as disorders of the same organ system, primarily the brain. The utility of using of neurophysiological data to guide treatment of the brain in connection with psychiatric disorders may well extend to neurological disorders.

For example, we currently have significant information in our rEEG Outcomes Database with respect to the effectiveness of anticonvulsants for patients with certain biomarkers. We intend to explore the utility of our biomarkers for guiding use of medications, including anticonvulsants, for their primary

indication of seizure disorders, as well as their utility in pain management for which they are also often prescribed.

ADDITIONAL APPLICATIONS BEYOND TREATMENT-RESISTANCE

Due to the success of rEEG with treatment-resistant patients, we believe that rEEG has the potential to become a useful tool for psychiatrists in treating patients that do not qualify as treatment resistant. For example, it is generally acknowledged that children have a wide range of reactions to anti-depressants and, in fact, anti-depressants in many cases actually harm instead of help them. The ability to avoid prescribing anti-depressants for children that may have a physiological predisposition to react negatively would reduce suffering for both the children, and their families, and facilitate the identification of a successful strategy earlier in the process. In addition, adolescents, who are typically intolerant of the long process of medication, would be especially good candidates for rEEG guided therapy.

CENTERS OF EXCELLENCE

It is our intention to work with our Client-Physicians, and our medical advisors to support, possibly with financial resources, the establishment of practices and/or clinics that specialize in the use of rEEG guided therapy. We believe that a network of such practices, which we call "Centers of Excellence," will provide opportunities for physician training and additional clinical trials and demonstrations of the value of rEEG technology. It is our goal to make these Centers of Excellence a destination for treatment-resistant patients and a resource for care managers of the MBHOs, and, in time, a network of such Centers may be in a position to contract for a disease management program with the managed care industry.

GOVERNMENT

The market for our Laboratory Information Services potentially includes state hospitals, wards of the state in specialty care homes for persistently and seriously ill and jails. 2,186,230 prisoners were held in Federal or State prisons or in local jails as of mid 2005.(17) Rates of severe mental illness in this population are reportedly as high as 24%.(18) We are not currently pursuing this market, in part because there is a substantial incidence of Schizophrenia in this population and we do not yet have sufficient data to provide treatment guidance for Schizophrenic patients.

We believe the incarcerated population returning to society may be a particularly good market for rEEG. We have not yet explored the opportunity to address this population but are interested in studying whether rEEG guided treatment might add enough improvement in efficiency and effectiveness to alter the recidivism rate.

RESEARCH AND DEVELOPMENT

We will continue to enhance, refine and improve the accuracy of our CNSR Database and rEEG through expansion of the number of medications covered by our rEEG Analytical Reports, expansion of our biomarkers, refinement of our biomarker system, and by reducing the time to turnaround a report to the physician. Other specific research and development goals consist of:

- Developing enhanced Type II Analyses that have increased value and content;

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(17) U.S. Dept. of Justice- Bureau of Justice Statistics, http://www.ojp.usdoj.gov/bjs/prisons.htm.

(18) Daly, R., PRISON MENTAL HEALTH CRISIS CONTINUES TO GROW, Psychiatry News, 40-20 at 1 (October 20, 2006).

- Addition of other CNSR agents, and possibly cardiac agents;

- Developing an automated Type I (m) for patients on a single well characterized medication;

- Advancing our research to understand the total balance analysis that can be used for monitoring or a more global scale; and

- Improved graphical presentation of results.

OUR BUSINESS PLAN - PHARMACEUTICAL DEVELOPMENT AND ADVANCEMENT

Although we intend to emphasize our Laboratory Information Services during the next twelve (12) months, we plan to increase our involvement with the pharmaceutical industry in the future.

OUR STRATEGY

Our strategy in the next year is the initiation of marketing of rEEG to selected potential pharmaceutical development partners. Evaluation of such opportunities by potential partners is complicated by many issues including state of intellectual property, regulatory approval for marketing and the trial(s) necessary, medication delivery and packaging requirements of the medications, therapeutic synergy of the combination, market needs in selected indications and related competitive advantage, estimated market size, production costs, current physician familiarity with the individual agents and other considerations.

A secondary goal is to explore the business opportunity in aiding in resuscitating opportunities for psychiatric medications that are no longer being pursued by their developers despite the fact that such medications demonstrated significant efficacy for subgroups of patients in clinical trials. We believe

that, by using our system of rEEG biomarkers, we can aid in identifying patient populations that are more likely to respond to a particular medication based on their common physiological characteristics. We are interested in exploring cooperative relationships, which utilize our technology and rEEG Outcomes Database to aid in the development and clinical trials of efficacious medications that previously had failed to adequately demonstrate that efficacy in late stage trials.

We intend to leverage our capabilities and technology to develop a pharmaceutical business from four sources:

COMBINATION OF OFF-PATENT AGENTS FORMULATED INTO SINGLE PILL FIXED-DOSE COMBINATIONS.

Our data has demonstrated that some patient electrophysiological abnormalities are more frequently observed than others. Most of the frequent abnormalities take more than one agent to bring the patient to an electrophysiological normal state. This is not surprising, as the individual agents were never developed from an electrophysiological normalizing perspective. We have identified a number of high frequency abnormalities that appear to be most effectively addressed by a combination of medications. We have filed patent applications on two categories of combinations and expect to file more. Our current focus is for opportunities in bulimia, treatment-resistant depression and addiction.

PARTNERING WITH PHARMACEUTICAL DEVELOPERS TO "RESCUE" NEW AGENTS IN DEVELOPMENT.

New Chemical Entities (NCEs) that have been shown to be safe, but not efficacious in late stage clinical trials present opportunities to partner or acquire and re-license. Specifically, our interest is focused on a group of agents that can generally be described as having (a) completed pre-clinical formulation, toxicology, pilot production development, and all required animal studies, (b) completed Phase I human safety studies, (c) completed Phase II human dosing studies and possibly conducted initial

Phase III pivotal efficacy studies. These agents will have shown themselves to be generally safe without debilitating adverse affects but have been discontinued in development due to their failure to show compelling efficacy in either Phase II or Phase III studies.

We estimate that there are approximately 200 central nervous system compounds which are sitting idle at large pharmaceutical companies after failing Phase II or Phase III trial.(19) We have completed a review of 53 such agents that fit the described criteria and initially has focused on eight which are thought to be worthy of consideration for licensing. Five other agents have been identified as to be worth in-licensing pursuit for United States development. These are agents that have been approved in overseas markets but not in the United States. While they may not have been adequately differentiated, or the regulatory expense may not have seemed justifiable for the potential market opportunity, we believe that these agents belong to classes that have been generally under utilized for additional significant indications. We believe that for some medications, our rEEG biomarker system will be able to identify patients with a high likelihood of responding well to these medications based on the presence of rEEG-defined biomarkers.

We believe our rEEG biomarker system can be used to effect:

- Reduction of placebo responders in a clinical trial by focusing on treatment resistant patients or eliminating patients demonstrating normal neurophysiologic function and balance;

- An increase in treatment group responders by selecting patients for trial inclusion based on the presence of specific rEEG defined neurophysiology.

AMELIORATING THE CNSR SIDE EFFECTS OF MEDICATIONS USED FOR OTHER MEDICAL PURPOSES.

"Cancer fog" is a colloquial term used to describe the response of a patient or care-givers response to the stresses and perhaps the medications associated with cancer therapeutics. For patients, these effects appear to be particularly specific to certain chemotherapeutic agents.

To the extent these agents cause a specific common alteration in neurophysiological function, rEEG should be able to note and identify this. This should allow the creation of a counteracting medication antidote for people suffering from a neuropsychiatric condition following primary therapy.

COMPARABLE COMPANIES, COMPETITION AND INDUSTRY DEVELOPMENTS

INDUSTRY DEVELOPMENTS

We are not aware of any reference laboratories that service Psychiatry with tools or information to direct therapy, although the following firms are using neurophysiological data in an attempt to diagnose certain disorders and, in some cases, monitor or confirm therapy:

- LEXICOR INC. (www.lexicor.com) uses EEG to diagnose ADHD

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(19) Jarvis, L. M. TEACHING AN OLD DRUG NEW TRICKS: GENE LOGIC IS CONVINCING BIG PHARMA TO TAKE ANOTHER LOOK AT ABANDONED DRUGS. Chemical and Engineering News, 84-7 at 52,54-55(February 13, 2006).

- NEURONETIX (www.neuronetix.com) uses tools to diagnose Autism, Dyslexia and Alzheimer's

- AMEN CLINIC - uses SPECT for diagnosis and monitoring of therapy

- NEUROGNOSTICS - uses FMRI for confirmation of therapeutic efficacy

We are not aware of any companies using neurophysiological data to guide therapy in conjunction with a neurophysiology outcomes database.

COMPARABLE COMPANIES

Although there are no companies offering a service similar to that offered by CNSR, the following companies might be noted as comparable through some commonalities:

- ASPECT MEDICAL SYSTEMS, INC. (Nasdaq: ASPM), an EEG anesthesia monitoring company, is developing a specific EEG measurement system that indicates a patient's likely response to some antidepressant medications. Boston Scientific invested $25 million in a joint venture to accelerate this effort. Patients must be measured prior to and after taking medication. Publicly available knowledge suggests that the technology may validate a patient's treatment but does not guide specific treatment. Initial trials have shown efficacy in correlating a patient's ultimate response to antidepressants. The revenue model appears to involve sale of equipment and a per-patient charge. The company is now conducting trials.

- HYTHIAM, INC. (Nasdaq: HYTM). Though perhaps more of an analogous company than a competitor, Hythiam is a public company introducing a proprietary addiction detoxification procedure that purports to address physiologic needs of addicts and impact on-going recovery. The company charges a $15,000 fee for stimulant abusers and $12,000 for alcohol abusers. Since CNSR does not provide guidance regarding detoxification of addictions (only their post-detoxification treatment), Hythiam is not a direct competitor.

- BRAIN RESOURCE COMPANY (www.brainresource.com), a development stage Australian public company developing EEG and other physiology data on patients with behavioral illness through a network of physician data relationships. Their revenue model includes physician services and sale of systems and services to pharmaceutical development companies in the CNSR field.

- GENOMIC HEALTH, INC. (NasdaqGM: GHDX). This public company provides analogous services to those of CNSR for patients suffering from cancer.

EMERGING TECHNOLOGIES

The entire field of neuropsychiatry is undergoing dramatic changes as a result of the introduction of new technologies. Many of these changes are driven by medical device companies including:

- CYBERONICS, INC. (Nasdaq: CYBX). Cyberonics has developed an implantable Vagus Nerve Stimulation device approved for treatment-resistant depression. This device has received pre-marketing approval from the Food and Drug Agency for patients and is believed to be under reimbursement review by insurance payers.

- MEDTRONIC, INC. (NYSE: MDT). Medtronic has an implantable deep brain stimulation device (DBS) in development which is similar to their device approved for Parkinson's treatment.

- NEURONETICS (www.neuronetics.com). Neuronetics has developed a trans-cranial magnetic stimulation (rTMS) device which is designed to be applied externally in a series of treatments over several weeks. The company is expected to file FDA registration soon.

We view these developing treatment options as expensive augmentations to existing therapies for treatment-resistant patients. From this perspective, these devices can be considered as competitive therapeutic treatment options to medications. To the best of our knowledge, rEEG-guided therapy provides a higher probability of treatment success at a significantly lower cost than device-based solutions, which gives us a competitive advantage in the marketplace.

GOVERNMENT REGULATION

Currently, we do not believe that sales of our Laboratory Information Services, including our rEEG Analytical Reports, are subject to regulatory approval. However, federal, state and foreign laws and regulations relating to the sale of our Laboratory Information Services are subject to future changes, as are administrative interpretations of regulatory agencies. In the event that federal, state, and foreign laws and regulations change, we may need to incur additional costs to seek government approvals for our Laboratory Information Services.

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

EMPLOYEES

As of March 7, 2007, we had 7 full-time employees. Since inception, we have never had a work stoppage, and our employees are not represented by a labor union. We consider our relationships with our employees to be positive.

LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We are not currently party to any legal proceedings, the adverse outcome of which, in our management's opinion, individually or in the aggregate, that would have a material adverse effect on our results of operations or financial position.

DESCRIPTION OF PROPERTY.

We currently lease our office space under a lease agreement which expires in April of 2007. The facility is approximately 1900 sq. ft, and is located in Costa Mesa, California. It is from this facility that we conduct all of our executive and administrative functions. We believe our space is adequate for our current needs and that suitable additional or substitute space will be available to accommodate the foreseeable expansion of our operations. Our telephone number is (949) 248-5461.

FILING STATUS

We file reports with the Securities and Exchange Commission the ("SEC"). You can read and copy any materials we file with the Commission at its' Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the Commission maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission, including us.

THIS DISCUSSION SUMMARIZES THE SIGNIFICANT FACTORS AFFECTING THE OPERATING RESULTS, FINANCIAL CONDITION AND LIQUIDITY AND CASH FLOWS OF CNSR CALIFORNIA FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005, AND THE THREE MONTH PERIODS ENDED DECEMBER 31, 2006 AND 2005. THE DISCUSSION AND ANALYSIS THAT FOLLOWS SHOULD BE READ TOGETHER WITH OUR FINANCIAL STATEMENTS AND THE NOTES TO THE FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS FORM 8-K. EXCEPT FOR HISTORICAL INFORMATION, THE MATTERS DISCUSSED IN THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ARE FORWARD LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES AND ARE BASED UPON JUDGMENTS CONCERNING VARIOUS FACTORS THAT ARE BEYOND OUR CONTROL.

OVERVIEW

We are a life sciences company focused on the commercialization of a patented system that guides psychiatrists and other physicians to determine a proper treatment for patients with behavioral (psychiatric, and/or addictive disorders). We also intend to identify, develop and commercialize new indications of approved drugs and drug candidates for this patient population.

We have developed an extensive proprietary database ("CNS Database") consisting of approximately 13,000 clinical outcomes across 2,000 patients who had psychiatric or addictive problems. For each patient, we have compiled electrocephalographic ("EEG") scans, symptoms, course of treatment and outcomes often across multiple treatments from multiple psychiatrists and physicians. Using this database, our technology compares a patient's EEG scan to the outcomes in the database and ranks treatment options based on treatment success of patients having similar neurophysiology.

Trademarked as Referenced-EEGSM ("rEEGSM"), this patented technology allows CNS to create and provide simple reports that specifically guide physicians to treatment strategies based on the patient's own physiology. The vast majority of these patients were considered long-term "treatment-resistant", the most challenging, high-risk and expensive category to treat.

rEEG identifies relevant neurophysiology that is variant from the norm and identifies medications that have successfully treated database patients having similar aberrant physiology. It does this by comparing a patient's standard digital EEG to a normative database. This identifies the presence of any pathophysiology. The rEEG process then compares the stratified set of patients with similar pathophysiology to our CNS Database and reports on relative medication success for this stratified group. Upon completion, the physician is provided the analysis in a report detailing and ranking classes of agents (and specific agents within the class) by treatment success.

We believe the key factors that will drive broader adoption of rEEG will be acceptance by healthcare providers of its clinical benefits, demonstration of the cost-effectiveness of using our test, reimbursement by third-party payors, expansion of our sales force and increased marketing efforts.

Since our inception, we have generated significant net losses. As of December 31, 2006, we had an accumulated deficit of $8.4 million. We incurred operating losses of $400,000 for the quarter ended December 31, 2006 and $1.8 million and $1.0 million in the years ended September 30, 2006 and 2005, respectively. We expect our net losses to continue for at least the next several years. We anticipate that a substantial portion of our capital resources and efforts will be focused on research and development, scale up our commercial organization, and other general corporate purposes. Research and development projects include the completion of clinical trials, the enhancement of our database and the identification of new medication that are often combinations of approved drugs.

FINANCIAL OPERATIONS OVERVIEW

REVENUES

We derive our revenues from the sale of rEEG Analytical Reports to physicians and operate in one industry segment. Physicians are generally billed upon delivery of an rEEG Analytical Report. The list prices of our rEEG Analytical Reports to physicians range from $200 to $800 with $400 being the most frequent charge.

COST OF REVENUES

Cost of revenues represents the cost of direct labor, the amortization of the purchased database and costs associated with external processing, analysis and consulting review necessary to render an individualized test result. Costs associated with performing our tests are expensed as the tests are performed. We are currently evaluating the feasibility of hiring our own personnel to perform most of the processing and analysis necessary to render a report.

RESEARCH AND DEVELOPMENT

Research and development expenses primarily represent costs incurred to design and conduct clinical studies, improve rEEG processing, add data to our database, improve analytical techniques and advance application of the methodology to additional clinical diagnosis. We charge all research and development expenses to operations as they are incurred.

SALES AND MARKETING

Our selling and marketing expenses consist primarily of personnel costs and the costs of educating physicians, laboratory personnel and other healthcare professionals regarding our product.

GENERAL AND ADMINISTRATIVE

Our general and administrative expenses consist primarily of personnel related costs, legal costs, accounting costs and other professional and administrative costs.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

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

REVENUE RECOGNITION

We have generated limited revenues since our inception. Revenues for our product are recognized when an rEEG Analytical Report is delivered to a Client-Physician.

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.

RESULTS OF OPERATIONS FOR THE QUARTERS ENDED DECEMBER 31, 2006 AND 2005

	FOR THE THREE MONTHS ENDED DECEMBER 31,	
	2006	2005
Revenues	$ 46,600	$ 36,600
Operating expenses:		
Cost of revenues	47,000	33,300
Research and development	180,100	89,000
Sales and marketing	26,000	11,000
General and administrative	194,200	146,800
Total operating expenses	447,300	280,100
Operating loss	(400,700)	(243,500)

Other income (expense)	800	(97,300)
Loss before income taxes	(399,900)	(340,800)
Income taxes	--	--
Net loss	$(399,900)	$(340,800)

REVENUES-Revenues were $46,600 for the quarter ended December 31, 2006 as compared to $36,600 for the comparable period in 2005. The increase in revenues resulted from the adoption of rEEG by an additional eight (8) physicians. The number of rEEG's performed in the quarter increased from 97 in 2005 to 123 in 2006 while the price per test remained constant at approximately $380. To drive broader adoption of rEEG we have undertaken a multi-site clinical study to validate the efficacy of our

product. In addition, we plan to increase our marketing efforts and expand our sales force to increase market awareness of rEEG.

COST OF REVENUES-For the quarter ended December 31, 2006, cost of revenues was $47,000, consisting primarily of direct labor costs of $15,800, consulting fees of $11,300 and amortization of the purchased database of $19,900. For the quarter ended December 31, 2005, cost of revenues was $33,300 consisting primarily of direct labor costs of $12,600, consulting fees of $800 and amortization of the purchased database of $19,900. We expect costs of revenues will increase as an absolute number as the volume of rEEGs processed increases; however, cost of revenues will decrease as a percentage of revenues due to operating efficiencies and since the cost of the purchased database has been amortized fully in the quarter ended December 31, 2006.

RESEARCH AND DEVELOPMENT-Research and development expenses were $180,100 for the quarter ended December 31, 2006 as compared to $89,000 for the comparable period in 2005. The increase in research and development expenses of $91,100 is primarily attributable to additional costs of $36,300 incurred in connection with research for the identification of indications of approved drugs and drug candidates and the cost of $59,700 to conduct clinical studies in 2006. We expect research and development expenses to continue to increase as we continue with the identification of approved drugs and drug candidates, complete studies to validate the efficacy of our product, acquire new data for our database, enhance our system and hire additional employees.

SALES AND MARKETING- Sales and marketing expenses were $26,000 for the quarter ended December 31, 2006 as compared to $11,000 for the comparable period in 2005. The increase in sales and marketing expenses resulted primarily from increased payroll costs and the design of marketing materials in the quarter ended December 31,2006. We expect sales and marketing expenses to increase substantially as we increase our marketing efforts and expand our sales.

GENERAL AND ADMINISTRATIVE- General and administrative expenses were $194,200 for the quarter ended December 31, 2006 as compared to $146,800 for the comparable period in 2005. The increase in general and administrative resulted primarily from an increase in legal and accounting costs associated with the reverse merger. We expect general and administrative costs to increase as we expand our staff and incur costs associated with being a public company.

INTEREST EXPENSE-Interest expense was $51,000 for the quarter ended December 31, 2006 as compared to $97,300 for the comparable period in 2005. The decrease in interest expense resulted from the conversion of promissory notes into the Company's preferred stock in October 2006.

RESULTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	For the years ended September 30,	
	2006	2005
Revenues	$ 175,500	$ 127,400
Operating expenses:		
Cost of revenues	175,900	165,100
Research and development	76,700	58,500
Sales and marketing	36,000	52,900
General and administrative	1,671,100	811,800

Total operating expenses	1,959,700	1,088,300
Operating loss	(1,784,200)	(960,900)
Other income (expense):		
Interest expense, net	(390,600)	(330,700)
Gain (loss) on derivative instruments	1,178,500	(212,500)
Gain on troubled debt restructuring	1,079,700	--
Total other income (expense)	1,867,600	(543,200)
Income (Loss) before income taxes	83,400	(1,504,100)
Income taxes	800	800
Net income (loss)	$ 82,600	$(1,504,900)

REVENUES-Revenues were $175,500 for the year ended September 30, 2006 as compared to $127,400 for the comparable period in 2005. The increase in revenues resulted from the adoption of rEEG by additional physicians. To drive broader adoption of rEEG we have undertaken a clinical study to validate the efficacy of rEEG, and intend to increase our marketing efforts and expand our sales force.

COST OF REVENUES-For the year ended September 30, 2006, cost of revenues was $175,900, consisting primarily of direct labor costs of $50,200, consulting fees of $41,500 and amortization of the purchased database of $79,800. For the year ended September 30, 2005, cost of revenues was $165,100 consisting primarily of direct labor costs of $50,200, consulting fees of $25,000 and amortization of the purchased database of $79,800. We expect costs of revenues will increase as an absolute number as the volume of rEEGs processed increases; however, cost of revenues will decrease as a percentage of revenues due to operating efficiencies and as a result of the cost of the purchased database being fully amortized in the first quarter of our fiscal year ending September 30, 2007.

RESEARCH AND DEVELOPMENT-Research and development expenses were $76,700 for the year ended September 30, 2006 as compared to $58,500 for the comparable period in 2005. The increase in research and development expenses resulted from increased consulting fees incurred in 2006 primarily related to the design of clinical studies. We expect research and development expenses to increase as we complete studies to validate the efficacy of our product, acquire new data for our database, enhance our system and hire additional employees.

SALES AND MARKETING- Sales and marketing expenses were $36,000 for the year ended September 30, 2006 as compared to $52,900 for the comparable period in 2005. The decrease in sales and marketing expenses resulted from a decrease in sales consultants in 2006. We expect sales and marketing to increase as we increase our marketing efforts and expand our sales.

GENERAL AND ADMINISTRATIVE- General and administrative expenses were $1,671,100 for the year ended September 30, 2006 as compared to $811,800 for the comparable period in 2005. The increase in general and administrative resulted from an increase in payroll costs of $420,300, an increase in legal and accounting costs of $248,400 and an increase in consulting fees of $123,900. We expect general and administrative costs to increase as we expand our staff and incur costs associated with being a public company.

INTEREST EXPENSE-Interest expense was $390,600 for the year ended September 30, 2006 as compared to $330,700 for the comparable period in 2005. The increase in interest expense resulted from an increase in interest-bearing debt including convertible promissory notes, deferred salaries and unreimbursed expenses. We expect interest expenses to decrease, as substantially all of our interest-bearing debt was repaid or converted into equity in October 2006.

GAIN (LOSS) ON DERIVATIVE INSTRUMENTS-Gain on derivative instruments was $1,178,500 for the year ended September 30, 2006 compared to a loss of $212,500 for the comparable period in 2005. In accordance with generally accepted accounting principles, we treated the beneficial conversion feature associated with the convertible promissory notes and all non-employee warrants exercisable during the period the notes were potentially convertible into an

unlimited number of common shares as liabilities at their fair value. The fair value of the beneficial conversion feature and the warrants were estimated using the Black-Scholes option pricing model. The fair value of the beneficial conversion feature and the warrants and options was recomputed each reporting period with the change in fair value recorded as a gain or loss on derivative instruments.

GAIN ON TROUBLED DEBT RESTRUCTURING-Gain on troubled debt restructuring was $1,079,700 for the year ended September 30, 2006 as compared to zero in the comparable period for 2005. At September 30, 2005, we owed certain employees and consultants deferred compensation, accrued consulting fees, other compensation-related liabilities and accrued interest thereon aggregating $2,480,900. Due to financial difficulties experienced by the company, in August and September 2006, certain employees and consultants to whom the company owed an aggregate of $3,199,400 accepted 5,834,117 shares of CNSR California's common stock (of which 182,952 were restricted), and warrants and options to purchase an aggregate of 270,638 shares of CNSR California's common stock at $0.59 per share in full settlement of our obligations. On the date of transfer, the amounts due to employees and consultants exceeded the aggregate fair value of the shares, warrants and options transferred by $2,467,700. The gain attributable to employees considered related parties of $1,388,000 has been treated as a capital transaction and included in additional paid-in capital in the accompanying financial statements. The remaining gain of $1,079,700 has been included in operations in the accompanying financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have incurred significant losses and, as of December 31, 2006, we had an accumulated deficit of approximately $8.4 million. We have not yet achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our research and development, selling and marketing and general and administrative expenses will continue to grow and, as a result, we will need to generate significant product revenues to achieve profitability. We may never achieve profitability.

SOURCES OF LIQUIDITY-Since our inception substantially all of our operations have been financed primarily from debt financings. Through December 31, 2006, we had received proceeds of $3,116,000 from the issuance of convertible promissory notes, $220,400 from the issuance of common stock to employees in connection with expenses paid by such employees on behalf of the company, and $1.9 million from the sale of preferred stock. As of December 31, 2006, we had cash of $1.4 million and debt of $1.2 million. On March 7, 2007, we merged with CNS Response, Inc., a Delaware company (formerly called Strativation, Inc.), and concurrently therewith received gross proceeds of approximately $7,008,450 in a private placement transaction (the "Private Placement") with institutional investors and other high net worth individuals ("Investors"). Pursuant to Subscription Agreements entered into with these Investors, we sold 5,840,374 Investment Units, at $1.20 per Investment Unit. Each "Investment Unit" consists of one share of our common stock, and a five year non-callable warrant to purchase three-tenths of one share of our common Stock, at an exercise price of $1.80 per share (the "Investor Warrant"). We may agree to sell additional Investment Units for a period of 45 days following March 7, 2007, so that the gross proceeds from the offering may be in excess of $7,008,450.

CASH FLOWS-As of December 31, 2006 we had $1.4 million in cash compared to $314,800 at December 31, 2005. The increase of $1.1 million was due primarily to cash provided from the sale of our preferred stock offset by the use of $529,700 in cash in our operating activities.

Net cash used in operating activities was $530,000 for the quarter ended December 31, 2006 compared to $163,000 for the comparable period in 2005. The increase in cash used of $367,000 was primarily due to increases in research and development expenses and general and administrative expenses, and the inability of the Company to pay its obligations as of December 31, 2005.

Net cash used in investing activities was $5,400 for the quarter ended December 31, 2006 compared to zero for the comparable period in 2005. Our investing activities for the quarter consisted of lease deposits and loans made to employees. We expect amounts used in investing activities to increase as we purchase property and equipment.

Net cash provided by financing activities was $1.7 million for the quarter ended December 31, 2006 compared to $0 for the comparable period in 2005. Financing activities consisted primarily of the sale of preferred stock.

CONTRACTUAL OBLIGATIONS-As of December 31, 2006, we had no significant contractual obligations.

OPERATING CAPITAL AND CAPITAL EXPENDITURE REQUIREMENTS-We expect to continue to incur substantial operating losses in the future and to make capital

expenditures to keep pace with the expansion of our research and development programs and to scale up our commercial operations. We expect that our existing cash will be used to fund working capital and for capital expenditures and other general corporate purposes. The amount and timing of actual expenditures may vary significantly depending upon a number of factors, such as the progress of our product development, regulatory requirements, commercialization efforts and the amount of cash used by operations.

We currently anticipate that our cash and collections from sale of our services, together with the proceeds of completed financings, including the Private Placement, will be sufficient to fund our operations for at least the next 12 months.

Our future funding requirements will depend on many factors, including the following:

a. the cost of expanding our commercial operations, including our selling and marketing efforts;

b. the rate of progress and cost of research and development activities associated with our products;

c. the rate of progress and cost of research and development activities associated with the identification, development and commercialization of new indications of approved drugs and drug candidates;

d. the cost of filing, prosecuting, defending and enforcing our patents and other intellectual property rights; and

e. the effect of technological and market developments.

Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations. The issuance of equity securities may result in dilution to stockholders. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives. In addition, we may have to work with a partner on one or more of our technology development programs or market development programs, which may lower the economic value of those programs to our company.

INCOME TAXES- Since inception, we have incurred operating losses and, accordingly, have not recorded a provision for federal income taxes for any periods presented. As of September 30, 2006, we had net operating loss carryforwards for federal income tax purposes of $4,627,600. If not utilized, the federal net operating loss carryforwards will expire beginning in 2021. Utilization of net operating loss and credit carryforwards may be subject to a substantial annual limitation due to restrictions contained in the Internal Revenue Code that are applicable if we experience an "ownership change" that may occur, for example, as a result of the Private Placement being aggregated with certain other sales of our stock before or after this offering. The annual limitation may result in the expiration of our net operating loss and tax credit carryforwards before they can be used.

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS REPORT BEFORE PURCHASING SHARES OF OUR COMMON STOCK. INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. IF ANY OF THE FOLLOWING EVENTS OR OUTCOMES ACTUALLY OCCURS, OUR BUSINESS OPERATING RESULTS AND FINANCIAL CONDITION WOULD LIKELY SUFFER. AS A RESULT, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MAY LOSE ALL OR PART OF THE MONEY YOU PAID TO PURCHASE OUR COMMON STOCK.

RISK FACTORS

RISKS RELATED TO OUR COMPANY

WE HAVE A LIMITED OPERATING HISTORY, MAKING IT DIFFICULT TO EVALUATE OUR FUTURE PERFORMANCE.

We were incorporated in 2000 and therefore have a limited operating history. Investors have limited substantive financial information on prior operations to evaluate the company as an investment. Our potential must be

viewed in light of the problems, expenses, difficulties, delays and complications often encountered in the operation of a new business. We will be subject to the risks inherent in the ownership and operation of a company with a limited operating history such as fluctuations in expenses, competition, the general strength of regional and national economies, and governmental regulation. Any failure to successfully address these risks and uncertainties would seriously harm our business and prospects.

WE CURRENTLY DEPEND ON SALES OF OUR REEG ANALYTICAL REPORTS FOR SUBSTANTIALLY ALL OF OUR REVENUE, AND IF OUR REPORTS DO NOT GAIN WIDESPREAD MARKET ACCEPTANCE, THEN OUR REVENUES MAY NOT EXCEED OUR EXPENSES.

We have developed a methodology that aids psychiatrists and other physicians in selecting appropriate and effective medications for patients with certain behavioral or addictive disorders based on physiological traits of the patient's brain and information contained in a proprietary database that has been developed over the last twenty years. We began selling reports, referred to as rEEG Analytical Reports, based on our methodology in 2000. To date, we have not received widespread market acceptance of the usefulness of our rEEG Analytical Reports in helping psychiatrists and physicians inform their treatment strategies for patients suffering from behavioral and/or addictive disorders. Because we currently depend on the sale of rEEG Analytical Reports for substantially all or our revenue, and we have no other significant products or services, if we fail to achieve widespread market acceptance for our rEEG Analytical Reports, we will not be able to sustain or grow our revenues.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY AND OUR STOCK PRICE COULD DECLINE OR FLUCTUATE IF OUR RESULTS DO NOT MEET THE EXPECTATION OF ANALYSTS OR INVESTORS.

Management expects that we will experience substantial variations in our operating results from quarter to quarter. We believe that the factors which influence this variability of quarterly results include:

- the use of and demand for rEEG Analytical Reports and other products and/or services that we may offer in the future that are based on our patented methodology.
- the effectiveness of new marketing and sales programs.
- turnover in our direct sales force.

- changes in management.
- the introduction of products or services that are viewed in the marketplace as substitutes for the services we provide.
- communications published by industry organizations or other professional entities in the psychiatric and physician community that are unfavorable to our business.
- the introduction of regulations which impose additional costs on or impede our business.
- the timing and amount of our expenses, particularly expenses associated with the marketing and promotion of our services, the training of physicians and psychiatrists in the use of our rEEG Analytical Reports, and research and development.

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

IF THE ESTIMATES WE MAKE, AND THE ASSUMPTIONS ON WHICH WE RELY IN PREPARING OUR FINANCIAL STATEMENTS PROVE INACCURATE, OUR ACTUAL RESULTS MAY VARY FROM THOSE REFLECTED IN OUR FINANCIAL STATEMENTS.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and expenses, the amounts of charges accrued by us and related disclosure of contingent assets and liabilities. This includes estimates and judgments regarding revenue recognition, allowances for doubtful accounts, valuation of derivatives, warrants and other equity transactions. We base our estimates and judgments on historical experience and on various other assumptions that we believe to be reasonable under the circumstances at the time such estimates and judgments were made. There can be no assurance, however, that our estimates and judgments, or

the assumptions underlying them, will be correct.

WE MAY NEED ADDITIONAL FUNDING TO SUPPORT OUR OPERATIONS AND CAPITAL EXPENDITURES, WHICH MAY NOT BE AVAILABLE TO US AND WHICH LACK OF AVAILABILITY COULD ADVERSELY AFFECT OUR BUSINESS.

We have not generated significant revenues or become profitable, may never do so, and may not generate sufficient working capital to cover costs of operations. We intend to fund our operations and capital expenditures from revenues, our cash on hand and the net proceeds of our Private Placement. As a result of our Private Placement, we believe that we will have sufficient funds to finance the cost of our operations, our operating and management infrastructure, and planned expansion for the next 15 months. However, in the event we expand our operations more aggressively then we currently anticipate, we may need additional capital for this purpose. In addition, we may need additional funds to pursue business opportunities (such as acquisitions of complementary businesses), to react to unforeseen difficulties, such as the need to defend or enforce our intellectual property rights, to respond to competitive pressures, or to obtain regulatory approvals needed to market our Laboratory Information Services and other services and/or products.

If our capital resources are insufficient, we will need to raise additional funds. We currently have no committed sources of additional capital, and there can be no assurance that any financing arrangements

will be available in amounts or on terms acceptable to us, if at all. Furthermore, the sale of additional equity or convertible debt securities may result in additional dilution to existing stockholders. If adequate additional funds are not available, we may be required to delay, reduce the scope of or eliminate material parts of the implementation of our business strategy. This limitation could substantially harm our business, results of operations and financial condition.

OUR INDUSTRY IS HIGHLY COMPETITIVE, AND WE MAY NOT BE ABLE TO COMPETE SUCCESSFULLY, WHICH COULD RESULT IN PRICE REDUCTIONS AND DECREASED DEMAND FOR OUR PRODUCTS.

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

OUR LABORATORY INFORMATION SERVICES MAY NOT BE AS EFFECTIVE AS WE BELIEVE THEM TO BE, WHICH COULD LIMIT OR PREVENT US FROM GROWING OUR REVENUES.

Our belief in the efficacy of our Laboratory Information Services that we provide is based on a limited number of studies. Such results may not be statistically significant, and may not be indicative of the long-term future efficacy of the information we provide. Controlled scientific studies, including those that have been announced and that are planned for the future, may yield results that are unfavorable or demonstrate that our Laboratory Information Services are not clinically useful. While we have not experienced such problems to date, if the initially indicated results cannot be successfully replicated or maintained over time, utilization of our Laboratory Information Services could decline substantially.

DATA RELATING TO OUR PRODUCTS AND SERVICES MAY BE INTERPRETED UNFAVORABLY, WHICH COULD ADVERSELY AFFECT OUR REVENUES AND EARNINGS.

While we have been able to generate initial interest in our Laboratory Information Services among a limited number of psychiatrists and physicians, there can be no assurance that our efforts or the efforts of others will be successful in increasing the acceptance of our Laboratory Information Services. Marketplace acceptance of our Laboratory Information Services may largely depend upon healthcare providers' interpretation of our limited data, the results of pending studies, or upon reviews and reports that may be given by independent researchers. In the event that health care providers interpret data relating to our Laboratory Information Services unfavorably, and if our marketing and promotional efforts are not as successful as we expect them to be, our revenues and earnings will be harmed.

IF WE DO NOT MAINTAIN AND EXPAND OUR RELATIONSHIPS IN THE PSYCHIATRIC AND PHYSICIAN COMMUNITY, OUR GROWTH WILL BE LIMITED AND OUR BUSINESS COULD BE HARMED. IF PSYCHIATRISTS AND OTHER PHYSICIANS DO NOT RECOMMEND AND ENDORSE OUR PRODUCTS AND SERVICES, OUR SALES MAY DECLINE OR WE MAY BE UNABLE TO INCREASE OUR SALES, AND IN SUCH INSTANCES OUR PROFITABILITY WOULD BE HARMED.

Purchases by psychiatrists and physicians of our Laboratory Information

Services currently account for substantially all of our revenue. Consequently, our relationships with psychiatrists and physicians are critical to our continued growth. We believe that these relationships are based on the quality and ease of use of our Laboratory Information Services, our commitment to the behavioral health market, our marketing efforts, and our presence at tradeshows such as the American Psychiatric Association annual meeting. Any actual or perceived diminution in our reputation or the quality of our Laboratory Information Services, or our failure or inability to maintain our commitment to the behavioral health market and our other marketing and product promotion efforts could damage our current

relationships, or prevent us from forming new relationships, with psychiatrists and other physicians and cause our growth to be limited and our business to be harmed.

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

NEGATIVE PUBLICITY OR UNFAVORABLE MEDIA COVERAGE COULD DAMAGE OUR REPUTATION AND HARM OUR OPERATIONS.

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

IF WE DO NOT SUCCESSFULLY GENERATE ADDITIONAL PRODUCTS AND SERVICES FROM OUR PATENTED METHODOLOGY AND PROPRIETARY DATABASE, OR IF SUCH PRODUCTS AND SERVICES ARE DEVELOPED BUT NOT SUCCESSFULLY COMMERCIALIZED, THEN WE COULD LOSE REVENUE OPPORTUNITIES.

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

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

IN THE EVENT THAT WE PURSUE OUR PHARMACEUTICAL OPPORTUNITIES, WE OR ANY DEVELOPMENT PARTNERS THAT WE PARTNER WITH WILL LIKELY NEED TO CONDUCT CLINICAL

TRIALS. IF SUCH CLINICAL TRIALS ARE DELAYED OR UNSUCCESSFUL, IT COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS.

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

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

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

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

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

IF WE DO NOT DEVELOP AND IMPLEMENT A SUCCESSFUL SALES AND MARKETING STRATEGY, WE MAY NOT EXPAND OUR BUSINESS SUFFICIENTLY TO COVER OUR EXPENSES.

We currently rely on our direct sales force to market and promote our Laboratory Information Services. In the event that we experience high turnover in our direct sales force, and new sales representatives do not acquire the skills to sell our Laboratory Information Services in a timely and successful manner, we may not be able to sustain and grow our revenue.

In addition, in order to grow our business, we will need to develop and introduce new sales and marketing programs and clinical education programs to promote the use of our Laboratory Information Services by psychiatrists and physicians. If we do not implement these new sales and marketing and education programs in a timely and successful manner, we may not be able to achieve the level of market awareness and sales required to expand our business.

WE MAY NOT BE ABLE TO GENERATE ENOUGH ADDITIONAL REVENUE FROM ANY INTERNATIONAL EXPANSION TO OFFSET THE COSTS ASSOCIATED WITH ESTABLISHING AND MAINTAINING FOREIGN OPERATIONS.

Currently, we do not have any international operations. However, a component of our growth strategy is to expand our presence into international markets. It is costly to establish international facilities and operations and to promote our Laboratory Information Services in international markets. We may encounter barriers to the sale of our Laboratory Information Services outside the United States, including reduced acceptance by psychiatrists and physicians of our Laboratory Information Services, delays in regulatory approvals outside of the United States, and difficulties associated with establishing sales channels. In addition, we have little experience in marketing and distributing our Laboratory Information Services in international markets. Revenue from international activities may not offset the expense of establishing and maintaining these international operations.

WE MAY NOT BE ABLE TO MEET THE UNIQUE OPERATIONAL, LEGAL AND FINANCIAL

CHALLENGES THAT WE WILL ENCOUNTER IN OUR INTERNATIONAL OPERATIONS, WHICH MAY LIMIT THE GROWTH OF OUR BUSINESS.

If and when we expand internationally, we will be subject to a number of challenges which specifically relate to our international business activities. These challenges include:

- failure of local laws to provide adequate protection against infringement of our intellectual property
- protectionist laws and business practices that favor local competitors, which could slow our growth in international markets,
- less acceptance by psychiatrists and physicians of the use of our products and services,
- delays in regulatory approval of our products or services,
- currency conversion issues arising from sales denominated in currencies other than the United States dollar,
- foreign currency exchange rate fluctuations,
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable.

If we are unable to meet and overcome these challenges, our international operations may not be successful which would limit the growth of our business and could adversely impact our results of operations.

WE MAY FAIL TO SUCCESSFULLY MANAGE AND MAINTAIN THE GROWTH OF OUR BUSINESS, WHICH COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

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

In addition, we have maintained a small financial and accounting staff, and our reporting obligations as a public company, as well as our need to comply with the requirements of the Sarbanes-Oxley Act of 2002, and the rules and regulations of the SEC will continue to place significant demands on

our financial and accounting staff, on our financial, accounting and information systems and on our internal controls. As we grow, we will need to add additional accounting staff and continue to improve our financial, accounting and information systems and internal controls in order to fulfill our reporting responsibilities and to support expected growth in our business. Our current and planned personnel, systems, procedures and controls may not be adequate to support our anticipated growth or management may not be able to effectively hire, train, retain, motivate and manage required personnel. Our failure to manage growth effectively could limit our ability to achieve our marketing and commercialization goals or to satisfy our reporting and other obligations as a public company.

WE MAY INCUR SIGNIFICANT EXPENSES OR BE PREVENTED FROM COMMERCIALIZING OR DEVELOPING PRODUCTS AS A RESULT OF AN INTELLECTUAL PROPERTY INFRINGEMENT CLAIM.

Our commercial success depends, in part, on our ability to operate without infringing the patents and proprietary rights of third parties. Infringement proceedings are long, costly and time-consuming and their outcome is uncertain.

If we become involved in any patent infringement litigation, interference or other administrative proceedings related to our intellectual property, we will incur substantial expenses and the time and effort of our management and scientific personnel, will be significantly diverted. As a result of such litigation or proceedings, we could lose our proprietary position, and be restricted from selling, manufacturing or distributing the affected product(s), incur substantial damage awards, including punitive damages, or be required to seek third party licenses at terms that may be unattractive, or we may fail to acquire the license.

WE MAY NOT BE ABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY, WHICH IS THE CORE OF OUR BUSINESS.

We consider the protection of our intellectual property to be critical to our business prospects. We currently have two issued U.S. patents, and we have filed separate patent applications in multiple foreign jurisdictions.

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

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

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

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

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

CONFIDENTIALITY AGREEMENTS WITH EMPLOYEES, LICENSEES AND OTHERS MAY NOT ADEQUATELY PREVENT DISCLOSURE OF TRADE SECRETS AND OTHER PROPRIETARY INFORMATION

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

ALTHOUGH WE BELIEVE WE ARE NOT CURRENTLY SUBJECT TO REGULATORY APPROVAL FOR THE SALE OF OUR LABORATORY INFORMATION SERVICES, REGULATIONS ARE CONSTANTLY CHANGING, AND IN THE FUTURE OUR BUSINESS MAY BE SUBJECT TO REGULATION.

Currently, we do not believe that sales of our Laboratory Information Services, including our rEEG Analytical Reports, are subject to regulatory approval. However, federal, state and foreign laws and regulations relating to the sale of our Laboratory Information Services are subject to future changes, as are administrative interpretations of regulatory agencies. If we fail to comply with applicable federal, state or foreign laws or regulations, we could be subject to enforcement actions, including injunctions preventing us from conducting our business, withdrawal of clearances or approvals and civil and criminal penalties. In the event that federal, state, and foreign laws and regulations change, we may need to incur additional costs to seek government approvals for our Laboratory Information Services. There is no guarantee that we will be able to obtain such approvals in a timely manner or at all, and as a result, our revenues from our Laboratory Information Services may be reduced, or potentially eliminated.

IN THE FUTURE, WE INTEND TO SEEK REGULATORY APPROVAL FOR MEDICATIONS OR COMBINATIONS OF MEDICATIONS FOR NEW INDICATIONS, AND THERE IS NO GUARANTEE THAT WE WILL RECEIVE SUCH APPROVALS.

We intend to seek approval for medications or combinations of medications for new indications, either with corporate partners, or potentially, on our own. We are currently not authorized to market such medications in any jurisdiction, and we may never receive such authorization. The development and commercialization of medications for new indications is subject to extensive regulation by the U.S. Federal government, principally through the FDA and other federal, state and governmental authorities elsewhere. Prior to marketing any central nervous system medication, and in many cases prior to being able to successfully partner a central nervous system medication, we will have to conduct extensive clinical trials at our own expense to determine safety and efficacy of the indication that we are pursuing. We have no prior experience, as a company, in conducting clinical trials. Clinical trials are expensive and can take years to complete, and have uncertain outcomes. In addition, the regulatory and approval procedures vary from country to country, and additional testing may be required in some jurisdictions. It may take several years to complete the clinical trials, and a product may fail at any stage of testing. Difficulties and risks associated with clinical trials may result in our, or our partners' inability to achieve regulatory approval to market medications for central nervous system disorders. The FDA, other regulatory agencies, our collaborators, or we may suspend or terminate clinical trials at any time.

Delays or failures in obtaining regulatory approval may delay or prevent the commercialization of any product that we may develop for new indications, diminish any competitive advantage, reduce or eliminate revenues, milestone payments or royalties from collaborators, and adversely affect our ability to attract new collaborators. The results of earlier clinical trials do not necessarily predict the results of later clinical trials. Medications in later clinical trials may fail to show desired safety and efficacy traits in the indication we are seeking approval for, despite prior success in clinical trials for other indications. Even if we and/or our collaborators and partners believe the data collected from such clinical trials are promising, such data may not support approval by the FDA or any other regulatory authorities. In addition, the FDA or other regulatory authority may interpret the data differently than we do, which could delay, limit or prevent regulatory approval. We expect to rely, in part, on clinical trials that were performed by third-party physicians. These trial results may not be predictive of the results of clinical trials we intend to perform for new indications. In addition, the results of prior clinical trials may not now be acceptable to the FDA or other regulatory authorities because the data may be incomplete, outdated, or otherwise unacceptable for inclusions in ours or our partners' regulatory submissions for approval of medications for new indications.

IN THE EVENT WE OBTAIN REGULATORY APPROVAL FOR NEW INDICATIONS FOR EXISTING MEDICATIONS, WE WILL STILL BE SUBJECT TO EXTENSIVE REGULATION BY THE FDA AND OTHER AGENCIES, AND IF WE FAIL TO COMPLY WITH SUCH REGULATIONS, THE SALE OF OUR PRODUCTS MAY BE RESTRICTED.

If we, or our collaborators, obtain regulatory approval for new indications for existing medications, we will still be subject to extensive regulation by the FDA and/or other regulatory agencies. We and our collaborators will be required to conduct extensive post-market surveillance of products. Our, or our collaborators', failure to comply with applicable FDA and other regulatory requirements, or the later discovery of unknown problems, may result in restrictions on the marketing or sale of such products that will negatively impact sales and/or collaboration revenue, and may result in denial of authority to market the medication product(s).

IF WE DO NOT RETAIN OUR SENIOR MANAGEMENT AND OTHER KEY EMPLOYEES, WE MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT OUR BUSINESS STRATEGY.

Our future success depends on the on the ability, experience and performance of our senior management and our key professional personnel. Our success therefore depends to a significant extent on retaining the services of Leonard Brandt, our President, Chief Executive Officer, and Secretary, Horace Hertz, our Chief Financial Officer, and others. Because of their ability and experience, if we lose one or more of the members of our senior management or other key employees, our ability to successfully implement our business strategy could be seriously harmed.

We intend to carry key man life insurance on Leonard Brandt in an amount of $2.0 million, payable to the company. We do not carry key man life insurance on any of our other key employees. We do not have employment agreements in place with our executives and key employees, and each may terminate their employment upon notice and without cause or good reason. While we believe our relationships with our executives are good and do not anticipate any of them leaving in the near future, the loss of the services of Leonard Brandt or any other key member of management could have a material adverse

effect on our ability to manage our business.

IF WE DO NOT ATTRACT AND RETAIN SKILLED PERSONNEL OR IF WE DO NOT MAINTAIN GOOD RELATIONSHIPS WITH OUR EMPLOYEES, WE MAY NOT BE ABLE TO EXPAND OUR BUSINESS.

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

In addition, we may be subject to claims that we engage in discriminatory or inappropriate practices with respect to our hiring, termination, promotion and compensation processes for our employees. Such claims, with or without merit, could be time consuming, distracting and expensive to defend, could divert attention of our management from other tasks important to the success of our business and could adversely affect our reputation as an employer.

IN THE FUTURE WE COULD BE SUBJECT TO PERSONAL INJURY CLAIMS, WHICH COULD RESULT IN SUBSTANTIAL LIABILITIES THAT MAY EXCEED OUR INSURANCE COVERAGE.

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

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

IF GOVERNMENT AND THIRD-PARTY PAYERS FAIL TO PROVIDE COVERAGE AND ADEQUATE PAYMENT RATES FOR TREATMENTS THAT ARE GUIDED BY OUR LABORATORY INFORMATION SERVICES, OUR REVENUE AND PROSPECTS FOR PROFITABILITY MAY BE HARMED.

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

and the lack of such reimbursement could have a material adverse effect on our operations and could adversely affect our revenues and earnings.

OUR BUSINESS PROSPECTS AND PROFITABILITY COULD BE NEGATIVELY IMPACTED IF WE HAVE OVER-ESTIMATED THE DEMAND FOR OUR LABORATORY INFORMATION SERVICES.

We are focused on the market for behavioral health disorders. The projected demand for our Laboratory Information Services could materially differ from actual demand if our assumptions regarding this market and its trends and acceptance of our Laboratory Information Services by the psychiatric community prove to be incorrect or do not materialize or if other products or services gain more widespread acceptance, which in each case would adversely affect our business prospects and profitability.

WE ARE SUBJECT TO EVOLVING AND EXPENSIVE CORPORATE GOVERNANCE REGULATIONS AND REQUIREMENTS. OUR FAILURE TO ADEQUATELY ADHERE TO THESE REQUIREMENTS OR THE FAILURE OR CIRCUMVENTION OF OUR CONTROLS AND PROCEDURES COULD SERIOUSLY HARM OUR BUSINESS.

Because we are a publicly traded company we are subject to certain federal, state and other rules and regulations, including applicable requirements of the Sarbanes-Oxley Act of 2002. Compliance with these evolving regulations is costly and requires a significant diversion of management time and attention, particularly with regard to our disclosure controls and procedures and our internal control over

financial reporting. Although we have reviewed our disclosure and internal controls and procedures in order to determine whether they are effective, our controls and procedures may not be able to prevent errors or frauds in the future. Faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established controls and procedures may make it difficult for us to ensure that the objectives of the control system are met. A failure of our controls and procedures to detect other than inconsequential errors or fraud could seriously harm our business and results of operations.

OUR SENIOR MANAGEMENT'S LIMITED RECENT EXPERIENCE MANAGING A PUBLICLY TRADED COMPANY MAY DIVERT MANAGEMENT'S ATTENTION FROM OPERATIONS AND HARM OUR BUSINESS.

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

RISKS RELATED TO OUR INDUSTRY

THE HEALTHCARE INDUSTRY IN WHICH WE OPERATE IS SUBJECT TO SUBSTANTIAL REGULATION BY STATE AND FEDERAL AUTHORITIES, WHICH COULD HINDER, DELAY OR PREVENT US FROM COMMERCIALIZING OUR PRODUCTS AND SERVICES.

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

In addition, the FDA, regulates development, testing, labeling, manufacturing, marketing, promotion, distribution, record-keeping and reporting requirements for prescription drugs. Compliance with laws and regulations enforced by the FDA and other regulatory agencies may be required in relation to future products or services developed or used by us. Failure to comply with applicable laws and regulations may result in various adverse consequences, including withdrawal of our products and services from the market, or the imposition of civil or criminal sanctions.

We believe that this industry will continue to be subject to increasing regulation, political and legal action and pricing pressures, the scope and

effect of which we cannot predict. Legislation is continuously being proposed, enacted and interpreted at the federal, state and local levels to regulate healthcare delivery and relationships between and among participants in the healthcare industry. Any such changes could prevent us from marketing some or all of our products and services for a period of time or permanently.

WE MAY BE SUBJECT TO REGULATORY AND INVESTIGATIVE PROCEEDINGS, WHICH MAY FIND THAT OUR POLICIES AND PROCEDURES DO NOT FULLY COMPLY WITH COMPLEX AND CHANGING HEALTHCARE REGULATIONS.

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

FAILURE TO COMPLY WITH THE FEDERAL TRADE COMMISSION ACT OR SIMILAR STATE LAWS COULD RESULT IN SANCTIONS OR LIMIT THE CLAIMS WE CAN MAKE.

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

OUR BUSINESS PRACTICES MAY BE FOUND TO CONSTITUTE ILLEGAL FEE-SPLITTING OR CORPORATE PRACTICE OF MEDICINE, WHICH MAY LEAD TO PENALTIES AND ADVERSELY AFFECT OUR BUSINESS.

Many states, including California, in which our principal executive offices are located, have laws that prohibit business corporations, such as us, from practicing medicine, exercising control over medical judgments or decisions of physicians, or engaging in certain arrangements, such as employment or fee-splitting, with physicians. Courts, regulatory authorities or other parties, including physicians, may assert that we are engaged in the unlawful corporate practice of medicine by providing administrative and ancillary services in connection with our Laboratory Information Services, or that selling our rEEG Analytical Reports for a portion of the patient fees constitutes improper fee-splitting, in which case we could be subject to civil and criminal penalties, our contracts could be found legally invalid and unenforceable, in whole or in part, or we could be required to restructure our contractual arrangements. There can be no assurance that this will not occur or, if it does, that we would be able to restructure our contractual arrangements on favorable terms.

OUR BUSINESS PRACTICES MAY BE FOUND TO VIOLATE ANTI-KICKBACK, SELF-REFERRAL OR FALSE CLAIMS LAWS, WHICH MAY LEAD TO PENALTIES AND ADVERSELY AFFECT OUR BUSINESS.

The healthcare industry is subject to extensive federal and state regulation with respect to financial relationships and "kickbacks" involving healthcare providers, physician self-referral arrangements, filing of false claims and other fraud and abuse issues. Federal anti-kickback laws and regulations prohibit certain offers, payments or receipts of remuneration in return for (i) referring patients covered by Medicare, Medicaid or other federal health care program, or (ii) purchasing, leasing, ordering

or arranging for or recommending any service, good, item or facility for which payment may be made by a federal health care program. In addition, federal physician self-referral legislation, commonly known as the Stark law, generally

prohibits a physician from ordering certain services reimbursable by Medicare, Medicaid or other federal healthcare program from any entity with which the physician has a financial relationship. In addition, many states have similar laws, some of which are not limited to services reimbursed by federal healthcare programs. Other federal and state laws govern the submission of claims for reimbursement, or false claims laws. One of the most prominent of these laws is the federal False Claims Act, and violations of other laws, such as the anti-kickback laws or the FDA prohibitions against promotion of off-label uses of medications, may also be prosecuted as violations of the False Claims Act.

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

WE MAY BE SUBJECT TO HEALTHCARE ANTI-FRAUD INITIATIVES, WHICH MAY LEAD TO PENALTIES AND ADVERSELY AFFECT OUR BUSINESS.

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

OUR USE AND DISCLOSURE OF PATIENT INFORMATION IS SUBJECT TO PRIVACY AND SECURITY REGULATIONS, WHICH MAY RESULT IN INCREASED COSTS

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

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

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

increase our cost of doing business.

RISKS RELATING TO INVESTMENT IN OUR COMMON STOCK

WE HAVE A LIMITED TRADING VOLUME AND SHARES ELIGIBLE FOR FUTURE SALE BY OUR CURRENT STOCKHOLDERS MAY ADVERSELY AFFECT OUR STOCK PRICE.

Bid and ask prices for shares of our Common Stock are quoted on NASD's OTC Bulletin Board under the symbol CNSO.OB. There is currently no broadly followed, established trading market for our Common Stock. While we are hopeful that following the Merger, the Company will command the interest of a greater number of investors, an established trading market for our shares of Common Stock may never develop or be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. The absence of an active trading market reduces the liquidity of our Common Stock. Before commencement of the Private Placement, we had little or no trading volume in our Common Stock. As a result of this lack of trading activity, the quoted price for our Common Stock on NASD's OTC Bulletin Board is not necessarily a reliable indicator of its fair market value. Further, if we cease to be quoted, holders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our Common Stock, and the market value of our Common Stock would likely decline.

IF AND WHEN A TRADING MARKET FOR OUR COMMON STOCK DEVELOPS, THE MARKET PRICE OF OUR COMMON STOCK IS LIKELY TO BE HIGHLY VOLATILE AND SUBJECT TO WIDE FLUCTUATIONS, AND YOU MAY BE UNABLE TO RESELL YOUR SHARES AT OR ABOVE THE PRICE AT WHICH YOU ACQUIRED THEM.

The market price of our Common Stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including announcements of new products or services by our competitors. In addition, the market price of the Common Stock could be subject to wide fluctuations in response to a variety of factors, including:

- quarterly variations in our revenues and operating expenses;
- developments in the financial markets and worldwide or regional economies;
- announcements of innovations or new products or services by us or our competitors;
- announcements by the government relating to regulations that govern our industry;
- significant sales of our Common Stock or other securities in the open market;

- variations in interest rates;
- changes in the market valuations of other comparable companies; and
- changes in accounting principles.

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

SUBSTANTIAL FUTURE SALES OF OUR COMMON STOCK IN THE PUBLIC MARKET COULD CAUSE OUR STOCK PRICE TO FALL.

Upon the effectiveness of the Registration Statement, a significant number of our shares of Common Stock will become eligible for sale, including 5,840,374 shares sold in the Private Placement and 767,103 shares held by certain of our stockholders that were issued and outstanding immediately prior to the Merger. The sale of these shares could depress the market price of our Common Stock. A reduced market price for our shares could make it more difficult to raise funds through future offering of Common Stock.

The holders of these shares, to the extent such shares are not registered on the Registration Statement, as well as holders of our Common Stock issued to holders of CNSR California Series A Preferred Stock and holders of CNSR California Series B Preferred Stock, and certain holders of CNSR Common Stock in the Merger, and shares of our Common Stock held by the Placement Agent or issuable to the Placement Agent upon exercise of the Placement Agent Warrants, shall have piggy-back registration rights with respect to such Shares effective September 7, 2007, and demand registration rights with respect to such

Shares effective twelve (12) months following the closing of the Private Placement.

Moreover, as additional shares of Common Stock become available for resale in the open market (including Shares issuable upon the exercise of the Company's outstanding options and warrants), the supply of our publicly traded shares will increase, which could decrease its price.

Some of our shares may also be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect on the market for our shares. In general, a person who has held restricted shares for a period of one year may, upon filing with the Securities & Exchange Commission (the "SEC") a notification on Form 144, sell into the market shares up to an amount equal to 1% of the outstanding shares.

THE SALE OF SECURITIES BY US IN ANY EQUITY OR DEBT FINANCING COULD RESULT IN DILUTION TO OUR EXISTING STOCKHOLDERS AND HAVE A MATERIAL ADVERSE EFFECT ON OUR EARNINGS.

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

THE TRADING OF OUR COMMON STOCK ON THE OVER-THE-COUNTER BULLETIN BOARD AND THE POTENTIAL DESIGNATION OF OUR COMMON STOCK AS A "PENNY STOCK" COULD IMPACT THE TRADING MARKET FOR OUR COMMON STOCK.

Our securities, as traded on the Over-the-Counter Bulletin Board, may be subject to SEC rules that impose special sales practice requirements on broker-dealers who sell these securities to persons other than established customers or accredited investors. For the purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of $5,000,000, or individuals having a net worth in excess of $1,000,000 or having an annual income that exceeds $200,000 (or that, when combined with a spouse's income, exceeds $300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction before the sale. Consequently, the rule may affect the ability of broker-dealers to sell our securities and also may affect the ability of purchasers to sell their securities in any market that might develop therefore.

In addition, the SEC has adopted a number of rules to regulate "penny stock" that restrict transactions involving these securities. Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities and Exchange Act of 1934, as amended. These rules may have the effect of reducing the liquidity of penny stocks. "Penny stocks" generally are equity securities with a price of less than $5.00 per share (other than securities registered on certain national securities exchanges or quoted on the NASDAQ Stock Market if current price and volume information with respect to transactions in such securities is provided by the exchange or system). Because our securities may constitute "penny stock" within the meaning of the rules, the rules would apply to us and to our securities. If our securities become subject to the penny stock rules, our stockholders may find it more difficult to sell their securities.

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

WE HAVE NOT PAID DIVIDENDS IN THE PAST AND DO NOT EXPECT TO PAY DIVIDENDS FOR

THE FORESEEABLE FUTURE, AND ANY RETURN ON INVESTMENT MAY BE LIMITED TO POTENTIAL FUTURE APPRECIATION ON THE VALUE OF OUR COMMON STOCK.

We currently intend to retain any future earnings to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including without limitation, our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. To the extent we do not pay dividends, our stock may be less valuable because a return on investment will only occur if and to the extent our stock price appreciates, which may never occur. In addition, investors must rely on sales of their Common Stock after price appreciation as the only way to realize their investment, and if the price

of our stock does not appreciate, then there will be no return on investment. Investors seeking cash dividends should not purchase our Common Stock.

OUR OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS CAN EXERT SIGNIFICANT INFLUENCE OVER US AND MAY MAKE DECISIONS THAT ARE NOT IN THE BEST INTERESTS OF ALL STOCKHOLDERS.

After the closing of the Merger and Private Placement, our officers, directors and principal stockholders (greater than 5% stockholders) collectively control approximately 33% of our issued and outstanding Common Stock. As a result, these stockholders are able to affect the outcome of, or exert significant influence over, all matters requiring stockholder approval, including the election and removal of directors and any change in control. In particular, this concentration of ownership of our Common Stock could have the effect of delaying or preventing a change of control of us or otherwise discouraging or preventing a potential acquirer from attempting to obtain control of us. This, in turn, could have a negative effect on the market price of our Common Stock. It could also prevent our stockholders from realizing a premium over the market prices for their shares of Common Stock. Moreover, the interests of this concentration of ownership may not always coincide with our interests or the interests of other stockholders, and accordingly, they could cause us to enter into transactions or agreements that we would not otherwise consider.

TRANSACTIONS ENGAGED IN BY OUR LARGEST STOCKHOLDERS, OUR DIRECTORS OR EXECUTIVES INVOLVING OUR COMMON STOCK MAY HAVE AN ADVERSE EFFECT ON THE PRICE OF OUR STOCK.

After the closing of the Merger and Private Placement, our officers, directors and principal stockholders (greater than 5% stockholders) collectively control approximately 33% of our issued and outstanding Common Stock. Subsequent sales of our shares by these stockholders could have the effect of lowering our stock price. The perceived risk associated with the possible sale of a large number of shares by these stockholders, or the adoption of significant short positions by hedge funds or other significant investors, could cause some of our stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated sales of stock by our directors or officers could cause other institutions or individuals to engage in short sales of our Common Stock, which may further cause the price of our stock to decline.

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

ANTI-TAKEOVER PROVISIONS MAY LIMIT THE ABILITY OF ANOTHER PARTY TO ACQUIRE US, WHICH COULD CAUSE OUR STOCK PRICE TO DECLINE.

Delaware law contains provisions that could discourage, delay or prevent a third party from acquiring us, even if doing so may be beneficial to our stockholders. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our Common Stock. See Section captioned "DESCRIPTION OF CAPITAL STOCK - ANTI-TAKEOVER PROVISIONS."

PRINCIPAL STOCKHOLDERS PRIOR TO THE MERGER AND PRIVATE PLACEMENT

The following table sets forth certain information regarding the Company's common stock beneficially owned prior to the Merger and Private

Placement on March 7, 2007 for (i) each shareholder we know to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our executive officers and directors, and (iii) all executive officers and directors as a group. In general, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days. To the best of the Company's knowledge, all persons named have sole voting and investment power with respect to such shares, except as otherwise noted. Immediately prior to the Merger and Private Placement, 868,823 shares of the Company's common stock were outstanding.

NAMES:	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF CLASS BENEFICIALLY OWNED
NAME OF EXECUTIVE OFFICERS AND DIRECTORS		
Silas Phillips, CEO, CFO, Secretary and Sole Director ..... c/o Strativation, Inc., 10900 Wilshire Boulevard, Suite 500, Los Angeles, California 90024	4,419	*
NAME OF BENEFICIAL OWNER:		
Scott Absher ..... 18101 Von Karman Avenue, Suite 330, Irvine, California 92612	45,000	5.2%
Richardson & Patel LLP ..... 10900 Wilshire Boulevard, Suite 500 Los Angeles, California 90024-6525	656,103	75.5%
ALL DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP (1 PERSON)	4,419	*

*Less than 1%

PRINCIPAL STOCKHOLDERS AFTER THE MERGER AND PRIVATE PLACEMENT

The following table sets forth information regarding ownership of shares of the Company's common stock, as of March 7, 2007 taking into account the Merger and Private Placement for (i) each shareholder we know to be the beneficial owner of 5% or more of our outstanding common stock; (ii) each of our executive officers and directors, and (iii) all executive officers and directors as a group. To the best of the Company's knowledge, all persons named have sole voting and investment power with respect to such shares, except as otherwise noted. The table reflects a total of 24,692,190 shares outstanding as of March 7, 2007. Unless otherwise indicated, the address of each beneficial owner is c/o CNS Response, Inc., 2755 Bristol Street, Suite 285, Costa Mesa, California 92626.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES OUTSTANDING
EXECUTIVE OFFICERS AND DIRECTORS:		
Leonard Brandt (1) ..... Director, President, Chief Executive Officer and Secretary	8,536,277	30.4%
David B. Jones (2) ..... Director	4,338,521	16.8%
Dr. Jerome Vaccaro ..... Director	0	--

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES OUTSTANDING
Horace Hertz ..... Vice President Sales & Marketing	0	--
Directors and officers as a group (4 persons)	12,874,798	44.1%
5% STOCKHOLDERS:		
Stephen C. Suffin (3)	3,742,593	15.0%
Odyssey Venture Partners II, LP (2)	4,338,521	16.8%
NuPharm Database, LLC (4)	3,042,513	12.3%

Brian MacDonald (5)	2,036,523	8.0%
Meyerlen, LLC (6)	1,462,205	5.8%

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* Less than 1%

(1) Consists of (a) 4,347,686 shares of common stock (including 540,000 shares owned by Mr. Brandt's children), and 2,726,386 shares of common stock issuable upon the exercise of vested and exercisable options and warrants held by Mr. Brandt; and (b) 791,305 shares of common stock and 670,900 shares of common stock issuable upon the exercise of warrants held by Meyerlen, LLC. Meyerlen, LLC is controlled by Mr. Brandt.

(2) Consists of (a) 3,109,406 shares of Common Stock and 1,229,115 shares of Common Stock issuable upon the exercise of vested and exercisable warrants held by Odyssey Venture Partners II, LP. Mr. Jones is a partner of Odyssey Venture Partners II, LP.

(3) Consists of (a) 405,186 shares of common stock and 294,894 shares of common stock issuable upon the exercise of vested and exercisable options and warrants held by Mr. Suffin and (b) 3,042,513 shares of common stock held by NuPharm Database, LLC. Mr. Suffin is the President of NuPharm Database, LLC and exercises voting and dispositive power over these shares.

(4) Consists of 3,042,513 shares of common stock.

(5) Consists of 1,293,859 shares of common stock and 742,664 shares of common stock issuable upon the exercise of vested and exercisable options to purchase common stock.

(6) Consists of 791,305 shares of common stock and 670,900 shares issuable upon the exercise of warrants held by Meyerlen, LLC. Meyerlen, LLC is controlled by Mr. Brandt.

DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

Effective as of the closing of the Merger, Silas Phillips resigned as our prior sole officer (see ITEM 5.02 "DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS") and the following officers were appointed by the newly constituted Board of Directors:

NAME	AGE	POSITION
Leonard J. Brandt	50	President, Chief Executive Officer and Secretary
Horace Hertz	57	Chief Financial Officer

LEONARD J. BRANDT, DIRECTOR, PRESIDENT, CHIEF EXECUTIVE OFFICER, SECRETARY & FOUNDER

Leonard J. Brandt is a founder of CNSR California, and has served as its President and Chief Executive Officer, and as member of its Board of Directors since its inception in 2000. Mr. Brandt started his career with Norwest Venture Capital in 1980. In 1983 he became Vice President of Norwest Growth Fund and General Partner of Norwest Venture Partners, where he served until 1990. In this capacity he was primarily responsible for the firm's investments in the healthcare industry, including several involving the behavioral health industry. In 1995 Mr. Brandt founded Time Segment Publishing, Inc and was its President until 1999. In 1999, Mr. Brandt co-founded Embro Vascular, LLC, a provider of technology for least-invasive harvesting of the saphenous vein for heart-bypass surgery. He also individually provided consulting to early stage ventures from 1993 until he co-founded Mill City Venture Consulting in 1998. Mill City Venture Consulting was initially an advisor to NuPharm, Inc., the predecessor of CNSR California. Mr. Brandt has been a United States member of the government of New Zealand Trade and Enterprise Advisory Board since 2005. Len holds a Bachelor of Science degree from the College of Commerce at University of Illinois and a Masters of Business Administration from Harvard University.

HORACE HERTZ, CHIEF FINANCIAL OFFICER

Horace Hertz has served as Chief Financial Officer of CNSR California since October 15, 2006. From August 2003 to September 2006, Mr. Hertz served as the Chief Operating Officer and Chief Financial Officer of Bankers Integration Group, a financial information company. From April 2002 to August 2003, Mr. Hertz served as Chief Financial Officer of Infacare Pharmaceutical Corporation,

a medication development company. From April 2, 2001 to April 2002, Mr. Hertz served as Interim Chief Executive Officer of Maxoptix, Inc., a hardware company undergoing a restructuring. Prior to that Mr. Hertz served as a Chief Financial Officer for a NASDAQ-listed public company, Aspeon, Inc, a manufacturer of hardware, for 3 years. Mr. Hertz, a Certified Public Accountant, was a partner of Deloitte & Touche, LLP from 1974 to 1991 and has a Masters Degree in Mathematics from the University of California at Irvine.

At the closing of the Merger, the following new directors were appointed:

NAME	AGE	POSITION
Leonard J. Brandt	50	Chairman of the Board of Directors
David B. Jones	63	Director
Jerome Vaccaro, M.D. .	51	Director

Please see the biography of Leonard J. Brandt set forth above.

DAVID B. JONES, DIRECTOR

David B. Jones has been a director of CNSR California since July 2006, has been a Managing Partner of Odyssey Venture Partners II, L.P. since 2003. From 1997 to 2003, he served as Chairman and Chief Executive Officer of Dartron, Inc., a computer accessories manufacturer. From 1985 to 1997, he was a general partner of InterVen Partners, a venture capital firm with offices in Southern California and Portland, Oregon. From 1979 to 1985, he was President and Chief Executive Officer of First Interstate Capital, Inc., the venture capital affiliate of First Interstate Bancorp. Mr. Jones is a director of Earthanol, Inc. He is a graduate of Dartmouth College and holds Masters of Business Administration and law degrees from the University of Southern California.

JEROME VACCARO, M.D., DIRECTOR

Jerome Vaccaro, M.D., joined the Board of Directors of CNSR California in 2006. Dr. Vaccaro is a Senior Vice President with United Health Group's Specialized Care Services. He has served in a number of health care executive roles, most recently as Chief Executive Officer of United Behavioral Health, and before that as President and Chief Executive Officer of PacifiCare Behavioral Health ("PBH"). Dr. Vaccaro has also served as Medical Director of PBH (1996-2001), Chief Executive Officer of PacifiCare Dental and Vision (2002-2004), and Senior Vice President for the PacifiCare Specialty Health Division (2002-2004). Dr. Vaccaro has an extensive background in community mental health and public sector work, including editing the textbook, "Practicing Psychiatry in the Community," which is hailed as the definitive community psychiatry text. Dr. Vaccaro completed medical school and a Psychiatry Residency at the Albert Einstein College of Medicine in New York City. After his training, Dr. Vaccaro served on the full-time faculty of the University of Hawaii (1985-1989) and UCLA (1989-1996) Departments of Psychiatry.

None of the newly appointed officers or directors, nor any of their affiliates, beneficially owned any equity securities or rights to acquire any of our securities prior to the Merger, and no such persons have been involved in any transaction with us or any of our directors, executive officers or affiliates that is required to be disclosed pursuant to the rules and regulations of the SEC, other than with respect to the transactions that have been described herein. None of the newly appointed officers or directors has had any bankruptcy petition filed by or against any business of which such officer or director was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time. None of the newly appointed officers and directors have been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, nor have they been a party to any judicial or administrative proceeding during the past five years, except for matters that were dismissed without sanction or settlement, that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws. There are no family relationships among our executive officers and directors.

All members of our board of directors will serve until their terms expire or until their successors are duly elected and qualified. Our bylaws provide that the authorized number of directors shall be determined by resolution of the stockholders or the board of directors, but in no event shall be less than three (3). We intend to review and select additional candidates to serve on our board of directors.

Currently, each of Mr. Jones and Mr. Vaccaro are considered "independent" directors under Rule 4200(a)(15) of the National Association of Securities Dealers listing standards. We expect to be able to

attract and recruit additional candidates to serve on our board, the timing of which will depend on the availability and willingness of qualified independent director candidates to serve in such capacity.

Until further determination by the Board, the full Board of Directors will undertake the duties of the Audit Committee, Compensation Committee and Nominating Committee of the Board of Directors.

KEY EMPLOYEES

MICHAEL TIPPIE has served as VP of Pharmaceutical Business Development for the Company since January, 2006. Prior to CNSR, Mr. Tippie consulted for a number of biotechnology therapeutic, diagnostic and medical device companies from January 2002 to January 2006. From 1996-2002 Mr. Tippie was VP, Business Development for LifeSpan BioSciences, Inc., a genomic database and pathology services company, where he was responsible for 14 transactions with large pharmaceutical companies, as well as the management of their contract research business. Mr. Tippie has additional senior management experience in biotechnology (ZymoGenetics, Tacora, StressGen Biotechnologies), as well as venture capital experience (Norwest Venture Capital under Mr. Brandt; Medical Innovation Partners). Mr. Tippie started his career as a medicinal chemist at Syntex Research (since acquired by Hoffman LaRoche). Mr. Tippie holds a Masters of Business Administration from the Sloan School of Management at the Massachusetts Institute of Technology, a Master of Science in Chemistry from the University of Washington and a Bachelor of Science in Chemistry from Reed College.

BRIAN MACDONALD, a co-founder of the Company, has served as its Director of Engineering since 2000. Prior to receiving his Master of Business Administration from the Wharton School of Business, University of Pennsylvania, in 1990, Brian was trained in operations and chemical engineering. He consulted for Deloitte & Touche Management Consulting from July 1990 to April 1995 KPMG Strategic Services from April 1995 through April1996 and in private practice from April 1996 until January 1999. Mr. MacDonald's focus throughout this time was in the area of operations and information systems. Brian is co-founder of Mill City Venture Development, an entity founded in January 1999 that consulted for the predecessor company to CNSR. In addition to his Masters of Business Administration, Mr. MacDonald holds a Bachelor of Science degree from the University of Alabama.

SCIENTIFIC AND MEDIA ADVISORS

CNSR's Scientific Advisors and Media Advisors are experts in their field. During their tenure, CNSR Board of Directors and management team utilize their specialized expertise on an as-needed basis.

STEPHEN C. SUFFIN, MD, Advisor, is certified in anatomic and clinical pathology and has published more than 50 scientific papers. Dr. Suffin is a former Investigator at the Laboratory of Infectious Diseases at the National Institute of Allergy and Infectious Diseases and consultant to the Armed Forces Institute of Pathology before returning to the West Coast to become Medical Director at Upjohn's Laboratory Procedures. Dr. Suffin has served as a medical director for SmithKline Beecham and Quest Diagnostics for over 20 years. Additionally, Dr. Suffin is a board certified psychiatrist who has served as the medical director of two psychiatric hospitals and as the Chief Medical Officer of CNSR from its founding in 2000 until 2002.

MAURIZIO FAVA, MD, Advisor, is currently Associate Chief of Psychiatry for Clinical Research and Director of the Depression Clinical and Research Program at the Massachusetts General Hospital and Professor of Psychiatry at Harvard Medical School. Dr. Fava has authored or co-authored more than 200 original articles, edited four books, published more than 50 chapters, 200 abstracts and given more than 200 presentations at national or international meetings. He has received several awards during his career and is on the editorial board of four international medical journals. Dr. Fava's prominence in the field is

reflected by his role as the co-principal investigator of STAR*D, the largest study ever conducted in the area of depression.

ALAN SCHATZBERG, MD, Advisor, is the Kenneth T. Norris, Jr., Professor and Chairman of the Department of Psychiatry and Behavioral Sciences at Stanford University. He has authored over 500 publications and abstracts, including the MANUAL OF CLINICAL PSYCHOPHARMACOLOGY, (fifth edition published in 2005), co-edited the TEXTBOOK OF PSYCHOPHARMACOLOGY (third edition 2003) and is Co-Editor-in-Chief of the JOURNAL OF PSYCHIATRIC RESEARCH. He has received numerous awards during his career, including most recently the Distinguished Service in Psychiatry Award from the American College of Psychiatrists and is on the editorial board of several international medical journals. In 2003, Dr. Schatzberg was elected into the Institute of Medicine of the National Academy of

Sciences.

MAX A. SCHNEIDER, MD, Medical Advisor to CNSR, Director of Education, Positive Action Center at Chapman Medical Center, Orange, California, is a Fellow and Past President of the American Society of Addiction Medicine (ASAM), a Past Chair of the Board of Directors of the National Council on Alcoholism and Drug Dependence (NCADD), a former consultant to the Drug and Alcohol Advisory Committee of the U.S. Food and Drug Administration and a Certified Medical Review Officer. He currently serves as a Clinical Professor at the University of California at Irvine where he teaches in their Addiction Medicine program which he founded in 1969. Dr. Schneider has produced ten films and five booklets on addiction. In 1956 he was a member of the research team that developed "mouth to mouth" resuscitation that revolutionized the technique of artificial resuscitation.

GREGORY VISTICA, Advisor to CNSR, is the president of Washington Media Group, Inc., a communications firm that specializes in crisis management. He is also a principal with SAIL Venture Partners, an energy/cleantech venture firm. He is an author and former award-winning investigative journalist who has worked as a correspondent for NEWSWEEK, a contributing writer for THE NEW YORK TIMES MAGAZINE, a staff writer for THE WASHINGTON POST, a producer for 60 MINUTES II, and a military affairs writer for THE SAN DIEGO UNION-TRIBUNE. He has been nominated for an EMMY by CBS News and was a finalist for a PULITZER PRIZE nominated by the New York Times. He won a PEABODY AWARD and THE GEORGE POLK AWARD for his investigative reporting of the "Tailhook Scandal."

EXECUTIVE COMPENSATION

CNS RESPONSE, INC. (FORMERLY STRATIVATION, INC.)

We did not have a bonus, profit sharing, or deferred compensation plan for the benefit of our employees, officers or directors in 2006 or 2005. We did not pay any other salaries or other compensation above $100,000 to our officers, directors or employees in 2006 or 2005. Further, we have not entered into an employment agreement with any of our officers, directors or any other persons. We have not accrued any officer compensation.

There were no option grants to any executive officers during our fiscal year ended December 31, 2006, and no options were exercised by any executive officer during the fiscal year ended December 31, 2006.

In 2006, none of our directors received compensation for their services as directors on our board.

CNSR CALIFORNIA

The following table sets forth information concerning all compensation paid to CNSR California's Executive Officers for services to CNSR California in all capacities for each of the three fiscal years ended September 30, indicated below.

<TABLE>
CNS RESPONSE SUMMARY COMPENSATION TABLE
<CAPTION>

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS
NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED SEPTEMBER 30,	SALARY(1)	BONUS	OTHER ANNUAL COMPENSATION	NUMBER OF SECURITIES UNDERLYING OPTIONS*(2)
<S>	<C>	<C>	<C>	<C>	<C>
Leonard Brandt(1)	2006	$ 175,000	$ 10,000	$ 59,700	2,124,740
Chief Executive	2005	175,000	8,000	48,900	--
Officer, Director	2004	165,000	8,000	40,400	--

</TABLE>

* The Number of Securities Underlying Options represents the number of shares of our Common Stock for which the CNSR California common stock underlying the originally issued options was exchanged upon the closing of the Merger.

(1) For the fiscal years ended 2004, 2005 and 2006 Mr. Brandt agreed to forgo payment of his salary and allow CNSR California to accrue such compensation. In August 2006, Mr. Brandt agreed to settle his claims for compensation through September 30, 2006 in the aggregate amount of $1,106,900 in exchange for the issuance of 298,437 shares of CNSR California common stock, which were exchanged for 298,437 shares of our Common Stock upon the closing of the Merger.

(2) The options are fully vested and exercisable at $0.132 per share.

EMPLOYMENT CONTRACTS

The Company is not currently party to any employment contracts with any of its executive officers.

INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY

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

In general, any officer, director, employee or agent may be indemnified against expenses, fines, settlements or judgments arising in connection with a legal proceeding to which such person is a party, if that person's actions were in good faith, were believed to be in our best interest, and were not unlawful. Unless such person is successful upon the merits in such an action, indemnification may be awarded only

after a determination by independent decision of the board of directors, by legal counsel, or by a vote of the stockholders, that the applicable standard of conduct was met by the person to be indemnified.

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

Indemnification may also be granted pursuant to the terms of agreements which may be entered into in the future or pursuant to a vote of stockholders or directors. The statutory provision cited above also grants the power to us to purchase and maintain insurance which protects our officers and directors against any liabilities incurred in connection with their service in such a position, and such a policy may be obtained by us.

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

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CNSR CALIFORNIA

Except as follows, and as contemplated by the Merger Agreement, since September 30, 2003, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which CNSR California is or will be a party:

- in which the amount involved exceeds $60,000; AND
- in which any director, executive officer, other stockholders of more than 5% of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

From August 2000 through February 2003, Leonard J. Brandt, together with Meyerlen, LLC, a company in which Mr. Brandt owns a controlling interest, loaned CNSR a total of approximately $718,900 and purchased warrants to purchase approximately 945,750 shares of CNSR California common stock, pursuant to the terms of certain Note and Warrant Purchase Agreements. In October 2006 Mr. Brandt agreed to cancel the promissory notes and convert the loans, including all outstanding principal and accrued interest thereon, into 1,218,741 shares of CNSR California's Series A-1 Preferred Stock and 255,306 shares of CNSR California's Series A-2 Preferred Stock. At the closing of the Merger, the

1,218,741 shares of CNSR California's Series A-1 Preferred Stock and 255,306 shares of CNSR California's Series A-2 Preferred Stock converted into an aggregate of 1,474,047 shares of our Common Stock.

In connection with the consummation of an asset purchase transaction in January 2000, by and between Mill City/CNS, LLC and NuPharm, Mill City issued to NuPharm Database, LLC a certain Promissory Note dated January 11, 2000 (the "Original NuPharm Note") pursuant to which Mill City was obligated to pay NuPharm an aggregate principal amount of $299,923.00 together with interest pursuant to the payment schedule set forth in the Original NuPharm Note. In January 2000, Mill City contributed substantially all of its assets, including those securing the Original Note, to CNSR California, and CNSR California assumed certain debts and obligations of Mill City, including Mill City's obligations under the Original NuPharm Note. In October 2006, CNSR California entered into an agreement with NuPharm to cancel the Original NuPharm Note in consideration for the extension of the expiration date of a Warrant to purchase CNSR California Common Stock held by NuPharm and a new promissory note in the principal amount of $287,423 (the "New NuPharm Note"). Upon the closing of the Private Placement, the principal and accrued interest through December 31, 2006 on the New NuPharm Note automatically converted into 215,567 shares of our Common Stock.

In May 2005, April 2006 and July 2006, Odyssey Venture Partners II, L.P. of which David Jones is a partner, loaned CNSR California an aggregate of approximately $999,400 and purchased warrants to purchase approximately 523,305 shares of CNSR California common stock, pursuant to the terms of certain Note and Warrant Purchase Agreements. In October 2006 Odyssey Venture Partners II, L.P. agreed to cancel the promissory notes and convert the loans, including all outstanding principal and accrued interest thereon, into 1,693,899 shares of CNSR California's Series A-1 Preferred Stock and 52,907 shares of CNSR California's Series A-2 Preferred Stock. At the closing of the Merger, the 1,693,899 shares of CNSR California's Series A-1 Preferred Stock and 255,306 shares of CNSR California's Series A-2 Preferred Stock converted into an aggregate of 1,949,205 shares of our Common Stock.

On August 11, 2006, Mr. Brandt was granted an option to purchase 2,124,740 shares of CNSR California's common stock for an exercise price of $0.132 per share pursuant to CNSR California's 2006 Stock Incentive Plan. At the closing of the Merger, the option to purchase 2,124,740 shares of CNSR California's common stock was converted into the right to purchase an aggregate of 2,124,740 shares of our Common Stock at an exercise price of $0.132 per share.

In September 2006, CNSR California entered into multiple settlement agreements with its employees and consultants with respect to compensation accrued for services provided to CNSR California. Pursuant to CNSR California's settlement agreement with Mr. Brandt, CNSR California issued to Mr. Brandt 1,519,366 shares of its common stock in settlement of accrued compensation due in the amount of $1,258,705.00. In connection with this settlement, CNSR California loaned Mr. Brandt approximately $96,400 to pay the withholding tax on the value of such shares, which loan is evidenced by a promissory note. Immediately following the closing of the Merger, the loan to Mr. Brandt was repaid by Mr. Brandt returning to us 78,219 shares of our common stock having a value equal to the loan amount plus accrued interest thereon. Under a separate Settlement Agreement, Mr. Brandt was issued 1,827,827 shares of CNSR California's common stock in settlement of amounts owed for reimbursement for business expenses paid by Mr. Brandt through July 2006. At the closing of the Merger, the 1,519,366 shares of CNSR California's common stock issued pursuant to the first of the aforementioned settlement agreements, and the 1,827,827 shares of CNSR California's common stock issued pursuant to the second of the aforementioned settlement agreements converted into an aggregate of 3,347,193 shares of our Common Stock.

In October 2006, Odyssey Venture Partner II, L.P. invested $800,000 in CNSR California's mezzanine financing and received 792,080 shares of CNSR California's Series B Preferred Stock and warrants to purchase 475,248 shares of CNSR California's common stock. David B. Jones is one of the two board members that were designated by the holders of CNSR California's Series B Preferred Stock pursuant to a Voting Agreement entered into in connection with the mezzanine financing and note conversion transaction. At the closing of the Merger, David B. Jones was appointed as a director of the company.

On March 7, 2007, Sail Venture Partners, L.P. (formerly Odyssey Venture Partners II, L.P.) invested an aggregate of $447,000 in our Private Placement and in exchange were issued 372,500 shares of our Common Stock and a warrant to purchase 111,750 shares of our common stock at an exercise price of $1.80 per share. Mr. Jones is a partner of Sail Venture Partners, L.P.

Other than the transactions described below, since January 1, 2005, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- in which the amount involved exceeds the lessor of $120,000 or 1% of the average of our total assets at year-end for the last three completed fiscal years; and

- in which any director, executive officer, shareholder who beneficially owns 5% or more of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

TRANSACTIONS PRIOR TO THE MERGER

NEOTACTIX, INC. CONSULTING AGREEMENT

Prior to the Merger, on June 22, 2004, the Company and NeoTactix (NTX) entered into a Business Consulting Agreement ("NeoTactix Agreement") pursuant to which NeoTactix agreed to provide certain business consulting services, in exchange for 4,500,000 shares of the Company's common stock. The Company and NTX agreed that the compensation shares issued by the Company to affiliates of NTX would be cancelled and returned to the Company if, prior to October 31, 2005, the Company had not achieved certain benchmarks pursuant to the NeoTactix Agreement. On October 5, 2005, the NeoTactix Agreement was extended to October 31, 2006. On May 31, 2006, the Board of the Company approved the waiver of the forfeiture clause contained in the NeoTactix Agreement and it was deemed fully performed, and then terminated.

STOCK PURCHASE AGREEMENT

Prior to the Merger, on July 18, 2006, the Company entered into a Stock Purchase Agreement with seventeen accredited investors pursuant to which the Company agreed to issue 3,800,000 shares of the Company's common stock to the purchasers. The Company received an aggregate of $237,669 as consideration for the share issuance. Mr. Silas Phillips, a former director of the company, and the former chief executive officer, chief financial officer, and secretary of the company was an investor in this private placement.

DEBT CANCELLATION AGREEMENTS

Prior to the Merger, on July 28, 2006, Scott Absher, our former CEO, was paid a sum of $33,943 in full satisfaction of outstanding debt payable to him by the Company pursuant to a Debt Cancellation Agreement. The remaining balance of $47,612 including accrued interest was forgiven. Our former CFO, George LeFevre, also agreed to forgive all of his outstanding debt, including accrued interest, of $12,353 payable to the Company pursuant to a separate Debt Cancellation Agreement.

NOTES PAYABLE

Prior to the merger, on July 28, 2006, the principal balance of the notes payable to related parties of $28,800 were satisfied. All related interest was forgiven by related parties.

SHARES FOR DEBT AGREEMENT

Prior to the Merger, on January 11, 2007, the Company entered into a Shares For Debt Agreement with Richardson & Patel LLP ("R&P"), its former legal counsel, pursuant to which the Company agreed to issue and R&P agreed to accept 645,846 restricted shares of the Company's common stock (the "Shares") as full and complete settlement of a portion of the total outstanding debt in the amount of $261,201.84 that the Company owed to R&P for legal services (the "Partial Debt"). On January 15, 2007, the Company and R&P agreed to amend and restate the Shares for Debt Agreement to increase the number of Shares to be issued in settlement of such Partial Debt to 656,103 restricted shares of the Company's common stock. The Amended and Restated Shares for Debt Agreement, and the terms thereof were duly approved and ratified by the board of directors of the Company.

REGISTRATION RIGHTS AGREEMENT

Prior to the Merger, on January 11, 2007, the Company entered into a Registration Rights Agreement in connection with the above referenced Shares For Debt Agreement with R&P and various other stockholders of the Corporation signatory thereto ("Majority Stockholders") in connection with the shares of the Company acquired pursuant to the Shares For Debt Agreement and certain other previously disclosed or privately negotiated transactions that took place on or

around July 18, 2006. On January 15, 2007, the Company and the Majority Stockholders agreed to amend and restate the Registration Rights Agreement to provide registration rights to the Majority Stockholders for up to 767,103 shares of common stock of the Company held or to be acquired by them. The Amended and Restated Registration Rights Agreement, and the terms thereof were duly approved and ratified by the board of directors of the Company.

DESCRIPTION OF OUR CAPITAL STOCK

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

AUTHORIZED CAPITAL STOCK

Our authorized capital stock consists of 750,000,000 shares of Common Stock, par value $0.001 per share.

COMMON STOCK

As of March 7, 2007, we had 24,692,190 shares of Common Stock issued and outstanding. In addition, we had reserved 10,767,028 shares of Common Stock for issuance in respect of:

- outstanding options and warrants to purchase 8,407,517 shares of Common Stock at exercise prices from $0.01 to $1.81 per share; and
- outstanding warrants to purchase 2,359,511 shares of Common Stock at exercise prices from $1.44 to $1.80 per share.

DIVIDEND RIGHTS

The holders of outstanding shares of Common Stock are entitled to receive dividends out of funds legally available at the times and in the amounts that our Board may determine.

VOTING RIGHTS

Each holder of Common Stock is entitled to one vote for each share of Common Stock held on all matters submitted to a vote of stockholders.

NO PREEMPTIVE OR SIMILAR RIGHTS

Holders of Common Stock do not have preemptive rights, and Common Stock is not convertible or redeemable.

RIGHT TO RECEIVE LIQUIDATION DISTRIBUTIONS

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

ANTI-TAKEOVER PROVISIONS

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

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

AUTHORIZED BUT UNISSUED STOCK. The authorized but unissued shares of our common stock are available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future public offering to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock may enable our Board to issue shares of stock to persons friendly to existing management.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is Fidelity Stock Transfer. The address of Fidelity Transfer Company is 1800 South West Temple, Ste. 301, Salt Lake City, UT 84115, and the phone number is (810) 484-7222.

LISTING

Our common stock is currently quoted on the Over-The-Counter Bulletin Board under the trading symbol "CNSO.OB".

MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is currently listed for trading on the OTCBB under the symbol CNSO.OB. The following table sets forth, for the periods indicated, the high and low bid information for Common Stock as determined from sporadic quotations on the OTC Bulletin Board. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2006		
First Quarter	$0.07 ($3.50*)	$0.06 ($3.00*)
Second Quarter	$0.08 ($4.00*)	$0.06 ($3.00*)
Third Quarter	$0.17 ($8.50*)	$0.07 ($3.50)
Fourth Quarter	$0.17 ($8.50*)	$0.01 (0.50*)

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2005		
First Quarter	$0.10 ($5.00*)	$0.045 ($2.25*)
Second Quarter	$0.10 ($5.00*)	$0.035 ($1.75*)
Third Quarter	$0.065 ($3.25*)	$0.03 ($1.50*)
Fourth Quarter	$0.09 ($4.50*)	$0.036 (1.80*)

* Adjusted price reflecting the 1:50 reverse stock split that became effective January 10, 2007

On March 7, 2007, the closing sales price of Common Stock as reported on the OTC Bulletin Board was $2.00 per share. As of March 7, 2007, there were approximately 264 holders of record of our Common Stock.

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

The following table sets forth information concerning our equity compensation plans as of September 30, 2006.

<TABLE>
<CAPTION>

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A)) (c)
<S>	<C>	<C>	<C>
Equity compensation plans ..... approved by security holders	4,000,403	$0.13	5,815,660
Equity compensation plans not ... approved by security holders	--	--	--

TOTAL	4,000,403	$0.13	5,815,660

</TABLE>

RECENT SALES OF UNREGISTERED SECURITIES BY CNSR CALIFORNIA

PREFERRED STOCK TRANSACTIONS

NOTE CONVERSION TRANSACTION

In October 2006, CNSR California and the holders of certain promissory notes agreed to convert such notes with an aggregate outstanding balance of $3,061,700 and related accrued and unpaid interest of $1,005,300 at September 30, 2006, into 5,189,294 shares of CNSR California's Series A-1 Preferred Stock, and 804,221 shares of CNSR California's Series A-2 Preferred Stock. At the closing of the Merger, the aforementioned shares converted into an aggregate of 5,993,515 shares of our common stock.

MEZZANINE FINANCING

In October 2006, CNSR California sold 1,905,978 units (each, a "Mezzanine Unit") in a private financing resulting in net proceeds of $1,925,000. Each Mezzanine Unit consisted of one share of CNSR California's Series B Preferred Stock and a 5-year warrant to purchase 0.6 shares of CNSR California's common stock at $1.51 per share. At the closing of the Merger, the aforementioned shares and warrants were converted into 1,905,978 shares of our common stock and a warrant to purchase an aggregate of 1,138,835 shares of our common stock at $1.51 per share on or before October 6, 2011.

COMMON STOCK TRANSACTIONS

SETTLEMENT AGREEMENT FINANCING

In August and September 2006, certain employees and consultants to whom CNSR California owed an aggregate of $3,199,400 forgave approximately 80% of the debt and accepted 5,834,117 shares of CNSR California's common stock, and warrants and options to purchase an aggregate of 270,638 shares of CNSR California's common stock at $0.59 per share in full settlement of CNSR California's remaining obligations. At the closing of the Merger, the aforementioned shares and warrants were converted into 5,834,117 shares of our common stock and warrants and options to purchase an aggregate of 270,638 shares of our common stock at $0.59 per share.

CONVERSION OF NUPHARM DATABASE, LLC PROMISSORY NOTE

In connection with the consummation of an asset purchase transaction in January 2000, by and between Mill City/CNS, LLC and NuPharm, Mill City issued to NuPharm Database, LLC a certain

Promissory Note dated January 11, 2000 (the "Original NuPharm Note") pursuant to which Mill City was obligated to pay NuPharm an aggregate principal amount of $299,923.00 together with interest pursuant to the payment schedule set forth in the Original NuPharm Note. In January 2000, Mill City contributed substantially all of its assets, including those securing the Original Note, to CNSR California, and CNSR California assumed certain debts and obligations of Mill City, including Mill City's obligations under the Original NuPharm Note.

In October 2006, CNSR California entered into an agreement with NuPharm to cancel the Original NuPharm Note in consideration for the extension of the expiration date of a Warrant to purchase CNSR California Common Stock held by NuPharm and a new promissory note in the principal amount of $287,423 (the "New NuPharm Note"). Upon the closing of the Private Placement and Merger, the principal and accrued interest through December 31, 2006 on the New NuPharm Note automatically converted into 242,513 shares of our Common Stock.

Immediately upon extension of the of the NuPharm Warrant, NuPharm exercised the NuPharm Warrant to purchase 2,800,000 shares of CNSR California common stock for total proceeds of $147,700. At the closing of the Merger, the aforementioned shares converted into an aggregate of 2,800,000 shares of our common stock.

Please also see the disclosure set forth above in relation to the shares of common stock that were issued in the Merger and Private Placement.

STOCK OPTIONS

OPTION GRANT TO LEONARD BRANDT

On August 11, 2006, Mr. Brandt was granted an option to purchase 2,124,740 shares of CNSR California's common stock for an exercise price of $0.132 per share pursuant to CNSR California's 2006 Stock Incentive Plan. At the closing of the Merger, the option to purchase 2,124,740 shares of CNSR

California's common stock was converted into the right to purchase an aggregate of 2,142,740 shares of our Common Stock at an exercise price of $0.132 per share.

In connection with the above stock issuances and option grants, CNSR California did not pay any underwriting discounts or commissions. None of the sales of securities described or referred to above was registered under the Securities Act of 1933, as amended (the "Securities Act"). Each of the purchasers fell into one or more of the categories that follow: one of the Company's existing stockholders, one of the company's creditors, one of the company's current or former officers or directors, one of the company's service providers, or an accredited investor with whom the company or one of its affiliates had a prior business relationship. As a result, no general solicitation or advertising was used in connection with the sales. In making the sales without registration under the Securities Act, the company relied upon one or more of the exemptions from registration contained in Sections 4(2) of the Securities Act, and in Regulation D promulgated under the Securities Act.

RECENT SALES OF UNREGISTERED SECURITIES BY CNSR DELAWARE

Reference is made to the Stock Purchase Agreement entered into on July 18, 2006, and the Shares for Debt Agreement entered into on January 11, 2007 described above in the section entitled Certain Relationships and Related Transaction, which is hereby incorporated by reference.

In connection with the above stock issuances and option grants, CNSR Delaware did not pay any underwriting discounts or commissions. None of the sales of securities described or referred to above was registered under the Securities Act. Each of the purchasers fell into one or more of the categories that follow: one of the Company's existing stockholders, one of the company's creditors, one of the company's current or former officers or directors, one of the company's service providers, or an accredited investor with whom the company or one of its affiliates had a prior business relationship. As a result, no general solicitation or advertising was used in connection with the sales. In making the sales without registration under the Securities Act, the company relied upon one or more of the exemptions from registration contained in Sections 4(2) of the Securities Act, and in Regulation D promulgated under the Securities Act.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES

Reference is made to the disclosure set forth under Item 2.01 of this Current Report on Form 8-K, which disclosure is incorporated herein by reference.

ITEM 4.01 CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT.

(a) Simultaneously with the closing of the Merger, we dismissed Spector & Wong, LLP ("Spector & Wong") as our independent certified public accountants. The decision was approved by our Board of Directors. The report of Spector & Wong on our financial statements for the fiscal years ended December 31, 2006 and 2005 did not contain an adverse opinion or disclaimer of opinion and were not modified as to uncertainty, audit scope, or accounting principles, except the 2006 report did contain an explanatory paragraph related to our ability to continue as a going concern. During our fiscal years ended December 31, 2006 and 2005, and through March 7, 2007 (the effective date of Spector & Wong's dismissal), there were no disagreements with Spector & Wong on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Spector & Wong would have caused Spector & Wong to make reference to the subject matter of the disagreements in connection with its reports. We furnished Spector & Wong with a copy of this Report on Form 8-K prior to filing with the SEC. We also requested that Spector & Wong furnish us with a letter addressed to the Securities and Exchange Commission ("SEC") stating whether or not it agrees with our statements in this Report. A copy of the letter furnished by Spector & Wong in response to that request, dated March 7, 2007, is filed as Exhibit 16.1 to this Form 8-K.

(b) On March 7, 2007, upon the closing of the Merger, our Board of Directors approved the appointment of Cacciamatta Accountancy Corporation, LLP ("Cacciamatta"), as our new registered public accounting firm. During our two most recent fiscal years and through the date of this Report on

Form 8-K, we did not consult with Cacciamatta with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events listed in Item 304(a)(2)(i) or (ii) of Regulation S-B.

ITEM 5.01 CHANGES IN CONTROL OF REGISTRANT.

Reference is made to the disclosure set forth under Item 2.01 of this Current Report on Form 8-K, which disclosure is incorporated herein by reference.

ITEM 5.02 DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

Reference is made to the disclosure set forth under Item 2.01 of this Current Report on Form 8-K, which disclosure is incorporated herein by reference.

ITEM 5.03 AMENDMENTS TO ARTICLES OF INCORPORATION OR BYLAWS; CHANGE IN FISCAL YEAR

Reference is made to the disclosure set forth under Item 2.01 of this Current Report on Form 8-K, with respect to our name change from Stration, Inc. to CNS Response, Inc., which disclosure is incorporated herein by reference.

In connection with the Merger, our Board of Directors approved a change in fiscal year end from December 31 to September 30. We will account for the Merger as a "reverse acquisition." Consequently, we will not file a transition report reflecting the change of our fiscal year to that of CNSR California, given the fact that for accounting purposes, CNSR California is deemed to be the "accounting acquirer" in the "reverse acquisition."

ITEM 5.06 CHANGE IN SHELL COMPANY STATUS

Reference is made to the disclosure set forth under Item 2.01 and 5.01 of this Current Report on Form 8-K, which disclosure is incorporated herein by reference.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

The audited financial statements of CNSR California for the fiscal years ended September 30, 2006 and 2005 are incorporated herein by reference to Exhibit 99.2 to this Current Report. The unaudited financial statements of CNSR California for the quarterly period ended December 31, 2006 and 2005 are incorporated herein by reference to Exhibit 99.2 to this Current Report.

(b) PRO FORMA FINANCIAL STATEMENTS

We acquired CNSR California in a reverse merger transaction in which all of the issued and outstanding securities of CNSR California were converted into our securities. Immediately prior to the reverse merger on March 7, 2007, we had no operations, no assets, and no liabilities. Accordingly, for all

meaningful purposes the Audited Financial Statements for CNSR California which are filed with this Current Report on Form 8-K comprise our pro forma financials as well. Preparation of independent, unaudited pro forma financials other than the Financial Statements filed herewith would have imposed a substantial burden upon us as the surviving entity at this time without any meaningful additional disclosure.

(c) SHELL COMPANY TRANSACTIONS.

Reference is made to the disclosure set forth under Item 9.01(a) and 9.01(b) of this Current Report on Form 8-K, which disclosure is incorporated herein by reference.

(d) EXHIBITS

See attached Exhibit Index.

SIGNATURE

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

CNS Response, Inc.

Date: March 13, 2007 By: /s/ Leonard J. Brandt

Leonard J. Brandt
President and Chief Executive Officer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBITS
2.1	Agreement and Plan of Merger between Strativation, Inc., CNS Merger Corporation and CNS Response, Inc. dated as of January 16, 2007, incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 22, 2007.
2.2	Amendment No. 1 to Agreement and Plan of Merger by and among Strativation, Inc., CNS Merger Corporation, and CNS Response, Inc. dated as of February 28, 2007, incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 1, 2007.
3.1.1	Certificate of Incorporation, dated March 17, 1987, incorporated by reference to Exhibit No. 3(i) to the Registrant's Form 10-SB (File No. 000-26285) filed with the Commission on June 7, 1999.
3.1.2	Certificate of Amendment of Certificate of Incorporation, dated June 1, 2004, incorporated by reference to Exhibit 16 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on June 8, 2004.
3.1.3	Certificate of Amendment of Certificate of Incorporation, dated August 2, 2004, incorporated by reference to Exhibit 16 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on August 5, 2004.
3.1.4	Certificate of Ownership and Merger Merging CNS Response, Inc., a Delaware corporation, with and into Strativation, Inc., a Delaware corporation, dated March 7, 2007.
3.2	Bylaws, incorporated by reference to Exhibit No. 3(ii) to the Registrant's Form 10-SB (File No. 000-26285) filed with the Commission on June 7, 1999.
4.1	Form of Warrant issued to Investors in Private Placement.
10.1	Stock Purchase Agreement by and among the Registrant and George LeFevre, Scott Absher, and the purchasers signatory thereto dated July 18, 2006 Incorporated by reference from the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on July 24, 2006.
10.2	Amended and Restated Shares for Debt Agreement, dated January 16, 2007 by and between the Registrant and Richardson & Patel LLP 2007, incorporated by reference to Exhibit No. 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 16, 2007.
10.3	Amended and Restated Registration Rights Agreement, dated January 16, 2007 by and among the Registrant and the stockholders signatory thereto, incorporated by reference to Exhibit No. 10.2 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 16, 2007.
10.4	Form of Subscription Agreement between the Registrant and certain investors, dated March 7, 2007.
10.5	Form of Indemnification Agreement by and among the Registrant, CNS Response, Inc., a California corporation, and certain individuals, dated March 7, 2007.
10.6	Form of Registration Rights Agreement by and among the Registrant and certain Investors signatory thereto dated March 7, 2007.
10.7	Form of Registration Rights Agreement by and among the

	Registrant and certain stockholders of the Company signatory thereto dated March 7, 2007.
16.1	Letter from Spector & Wong, LLP.
21	Subsidiaries of the Registrant.
99.1	Press Release issued by CNS Response, Inc. dated March 9, 2007.
99.2	Financial statements of CNS Response, Inc. for the fiscal years ended September 30, 2006 and 2005, and unaudited financial statements for the three-month periods ended December 31, 2006 and 2005.

EXHIBIT 3.1.4

CERTIFICATE OF OWNERSHIP AND MERGER
MERGING
CNS RESPONSE, INC.,
(A DELAWARE CORPORATION)
WITH AND INTO
STRATIVATION, INC.,
(A DELAWARE CORPORATION)

(under Section 253 of the General Corporation Law of the State of Delaware)

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

DOES HEREBY CERTIFY:

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

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

THIRD: That the Company, by the following resolutions adopted by its Board of Directors, duly adopted by unanimous written consent of the members thereof on March 6, 2007, determined to merge MergerCo into itself, effective as set forth below:

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

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

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

WHEREAS, pursuant to the Merger, the separate existence of MergerCo shall cease, the outstanding capital stock of MergerCo shall be cancelled, and the Company shall assume of all of the obligations and liabilities of MergerCo and shall be subject to all the debts and liabilities of MergerCo in the same manner as

if the Company had itself incurred them, and each share of the capital stock of the Company shall remain outstanding and unaffected; and

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

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

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

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

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

RESOLVED FURTHER, that the officers of the Company, and each of them, are hereby authorized, for and on behalf of the Company, to modify, amend or revise the forms, terms and provisions of the Merger Documents, to execute, deliver and/or file any and all documents,

certificates, instruments, agreements and notices, and to perform or cause to be performed any and all acts as may, in their judgment, be necessary or desirable to accomplish the purposes of the foregoing resolutions and the transactions contemplated thereby and the Merger Documents therein approved whether within or without the State of Delaware and any other state necessary, the making of any such modification, amendment or revision, the taking of any such actions and/or the execution, delivery or filing of any such documents or instruments shall be conclusive evidence that the individual making such modification, amendment or revision, taking such action and/or executing, delivering or filing such document or instrument has deemed the same to be necessary or advisable;

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

RESOLVED FURTHER, that the actions of the officers and other agents of the Company and each of them, previously taken in connection with the

negotiation of the Merger and/or the preparation of the forms, terms and provisions of the Merger Documents are hereby adopted and approved."

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

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

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

STRATIVATION, INC.
a Delaware corporation

By: /s/ Leonard J. Brandt

Leonard J. Brandt, President

EXHIBIT 4.1

FORM OF WARRANT

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS (i) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT COVERING SUCH SECURITIES OR (ii) THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND IS IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

THIS WARRANT IS ISSUED PURSUANT AND SUBJECT TO THAT CERTAIN SUBSCRIPTION AGREEMENT BETWEEN THE INITIAL HOLDER OF THIS WARRANT (THE "INVESTOR") AND CNS RESPONSE, INC., A DELAWARE CORPORATION (THE "COMPANY") DATED _____, 2007.

Dated: _____, 2007

CNS RESPONSE, INC.

WARRANT ("WARRANT") TO PURCHASE SHARES
OF
COMMON STOCK, $0.001 PAR VALUE PER SHARE
_____ SHARES

WARRANT NO. W-_____

1. NUMBER OF SHARES SUBJECT TO WARRANT. This is to certify that, FOR VALUE RECEIVED, _____ (the "Investor"), is entitled to purchase from the Company, at any time before the termination of this Warrant pursuant to Section 3 hereof, at an exercise price equal to $1.80 per share (the exercise price in effect from time to time hereafter being called the "Warrant Price"), _____ (_____,000) shares ("Warrant Shares") of the Company's common stock, $0.001 par value per share ("Common Stock"), upon such Investor's exercise of this Warrant pursuant to Section 7 hereof. The number of Warrant Shares purchaseable upon exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time as described herein.

2. DEFINITIONS. As used in this Warrant, the following terms shall have definitions ascribed to them below:

(a) "BUSINESS DAY" shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the state of New York are authorized or required by law or other government actions to close between the hours of 9:30 a.m. and 5:00 p.m. Eastern Standard Time.

(b) "FAIR MARKET VALUE" or "FMV" of a share of Common Stock as of a particular date shall mean:

(i) If traded on a securities exchange, the Nasdaq National Market or the Nasdaq Small Cap Market, the Fair Market Value shall be deemed to be the average of the closing prices of the Common Stock of the Company on such exchange or market over the five (5) business days ending immediately prior to the applicable date of valuation;

(ii) If actively traded over-the-counter, the Fair Market Value shall be deemed to be the average of the closing bid prices over the 30-day period ending immediately prior to the applicable date of valuation; and

(iii) If there is no active public market, the Fair Market Value shall be the value as determined in good faith by the Company's Board of Directors upon a review of relevant factors, including due consideration of the Registered Holders' determination of the value of the Company.

(c) "HOLDER" shall mean the Investor and any permitted transferees.

3. TERMINATION. Unless terminated sooner under the terms of this Warrant, this Warrant shall terminate and no longer be exercisable at 5:00 p.m., Eastern Standard Time, on _____, 2012.

4. FRACTIONAL SHARES. No fractional shares shall be issuable upon

exercise of this Warrant and the number of shares to be issued shall be rounded up to the nearest whole share.

5. NO SHAREHOLDER RIGHTS. This Warrant, by itself, as distinguished from any shares purchased hereunder, shall not entitle the Holder to any of the rights of a shareholder of the Company.

6. RESERVATION OF STOCK. The Company will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of Warrant Shares upon the exercise or conversion of this Warrant. Issuance of this Warrant shall constitute full authority to the Company's officers who are charged with the duty of executing stock certificates to execute, issue and deliver the necessary certificates for shares of Warrant Shares issuable upon the exercise or conversion of this Warrant.

7. EXERCISE OF WARRANT. This Warrant may be exercised at any time prior to its termination by the surrender of this Warrant, together with the Notice of Exercise and the Investment Representation Statement in the forms attached hereto as Attachments 1 and 2, respectively, duly completed and executed, at the principal office of the Company, specifying the portion of this Warrant to be exercised, and either:

(a) accompanied by payment in full of the Warrant Price in cash or by check with respect to the shares of Warrant Shares being purchased; or

(b) by electing, by written notice to the Company on the Notice of Exercise duly executed by the Holder, to receive a number of Warrant Shares, determined in accordance with the formula set forth below (the "Election"), in which event the Company shall issue to the Holder a number of Warrant Shares computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where X = The number of Warrant Shares to be issued to the Holder upon an Election.

Y = The number of Warrant Shares in respect of which this Warrant is being exercised as adjusted to the date of the Election.

A = The FMV of one Warrant Share on the date that the relevant Notice of Exercise is received by the Company.

B = The Warrant Price (as adjusted to the date of the Election in accordance with Section 8 hereof).

This Warrant shall be deemed to have been exercised immediately prior to the close of business on the date of its surrender for exercise as provided above, and the person entitled to receive the shares of Warrant Shares issuable upon exercise shall be treated for all purposes as the holder of such shares of record as of the close of business on such date. As promptly as practicable after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for the number of full shares of Warrant Shares issuable upon such exercise. If the Warrant shall be exercised for less than the total number of shares of Warrant Shares then issuable upon exercise, promptly after surrender of the Warrant upon such exercise, the Company will execute and deliver a new Warrant, dated the date hereof, evidencing the right of the Holder to the balance of the Warrant Shares purchasable hereunder upon the same terms and conditions set forth herein.

8. ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF SHARES. The number of shares issuable upon exercise of this Warrant (or any shares of stock or other securities or property at the time receivable or issuable upon exercise of this Warrant) and the Warrant Price therefor are subject to adjustment upon the occurrence of the following events:

(a) ADJUSTMENT FOR STOCK SPLITS, STOCK DIVIDENDS, RECAPITALIZATIONS, ETC. The Warrant Price and the number of shares issuable upon exercise of this Warrant shall each be proportionally adjusted to reflect any stock dividend, stock split, reverse stock split, combination of shares, reclassification, recapitalization or other similar event altering the number of outstanding shares of the Company's common stock.

(b) ADJUSTMENT FOR OTHER DIVIDENDS AND DISTRIBUTIONS. In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution with respect to the shares payable in securities of the Company then, and in each such case, the Holder, on exercise of this Warrant at any time after the consummation, effective date or record date of such event, shall receive, in addition to the Warrant Shares (or such other stock or securities) issuable on such exercise prior to such date, the securities of the Company to which such Holder would have been entitled upon such date if such Holder had exercised this Warrant immediately prior thereto (all subject to further adjustment as provided in this Warrant).

9. ADJUSTMENT FOR CAPITAL REORGANIZATION, CONSOLIDATION, MERGER OR SALE. If any capital reorganization of the capital stock of the Company, or any consolidation or merger of the Company with or into another corporation, or the sale of all or substantially all of the Company's assets to another corporation shall be effected in such a way that holders of the Company's capital stock will be entitled to receive stock, securities or assets with respect to or in exchange for the Company's capital stock, then in each such case the Holder, upon the exercise of this Warrant, at any time after the consummation of such capital reorganization, consolidation, merger, or sale, shall be entitled to receive, in lieu of the stock or other securities and property receivable upon the exercise of this Warrant prior to such consummation, the stock or other securities or property to which such Holder would have been entitled upon such consummation if such Holder had exercised this Warrant immediately prior to the consummation of such capital reorganization, consolidation, merger, or sale, all subject to further adjustment as provided in this Section 9; and in each such case, the terms of this Warrant shall be applicable to the shares of stock or other securities or property receivable upon the exercise of this Warrant after such consummation.

10. NOTICE OF WARRANT. On the happening of an event requiring an adjustment of the Warrant Price or the Warrant Shares purchaseable hereunder, the Company shall forthwith give a written notice to the Holder stating the adjusted Warrant Price and the adjusted number and kind of securities or other property purchaseable under this Warrant resulting from the event and setting forth in reasonable detail the method of calculation and the facts upon which the calculation is based. The Board of Directors of the Company, acting in good faith, shall determine the calculation.

12. TRANSFER OF WARRANT. This Warrant may be transferred or assigned by the Holder hereof in whole or in part, provided that the transferor provides, at the Company's request, an opinion of counsel satisfactory to the Company that such transfer does not require registration under the Act and any other applicable federal or state securities laws.

13. AMENDMENTS AND WAIVERS. This Warrant and any term hereof may only be amended, waived, discharged or terminated by a written instrument signed by the Company and the Holder.

14. MISCELLANEOUS. This Warrant shall be governed by the laws of the State of Delaware, as such laws are applied to contracts to be entered into and performed entirely in Delaware by Delaware residents. The headings in this Warrant are for purposes of convenience and reference only, and shall not be deemed to constitute a part hereof. All notices and other communications from the Company to the Holder of this Warrant shall be delivered, personally or mailed by first class mail, postage prepaid, to the address furnished to the Company in writing by the last Holder of this Warrant who shall have furnished an address to the Company in writing, and if mailed shall be deemed given three Business Days after deposit in the United States mail.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed as of the date first written above.

CNS RESPONSE, INC.

By: _____

Name:
Title:

ATTACHMENT 1

NOTICE OF EXERCISE

TO: CNS RESPONSE, INC.

The undersigned hereby elects to purchase Warrant Shares of CNS Response, Inc. pursuant to the terms of the attached Warrant, and (check the applicable box):

|_| Tenders herewith payment of the exercise price in full in the form of cash or a certified or official bank check in same-day funds in the amount of $_____ for _____ such securities.

|_| If applicable pursuant to the cashless exercise feature set forth in Section 7(b).

Please issue a certificate representing said shares of Warrant Shares in the name specified below:

_____	_____
Name	Name
_____	_____
Street Address	Street Address
_____	_____
State, City and Zip Code	State, City and Zip Code

HOLDER:

- _____
Signature of Holder of Warrant

- _____
Name of Holder of Warrant (print)

- _____
Date

ATTACHMENT 2

INVESTMENT REPRESENTATION STATEMENT

SHARES OF WARRANT SHARES
(AS DEFINED IN THE ATTACHED WARRANT) OF
CNS RESPONSE, INC.

In connection with the purchase of the above-listed securities, the undersigned hereby represents to CNS Response, Inc. (the "Company") as follows:

(a) The securities to be received upon the exercise of the Warrant (the "Warrant Shares" as defined in the attached Warrant) will be acquired for investment for the undersigned's own account; not as a nominee or agent, and not with a view to the sale or distribution of any part thereof, and the undersigned has no present intention of selling, granting participation in or otherwise distributing the same, but subject, nevertheless, to any requirement of law that the disposition of the undersigned's property shall at all times be within the undersigned's control. By executing this Statement, the undersigned further represents that the undersigned does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer, or grant participation to such person or to any third person, with respect to any Warrant Shares issuable upon exercise of the Warrant.

(b) The undersigned understands that the Warrant Shares issuable upon exercise of the Warrant at the time of issuance may not be registered under the Act, and applicable state securities laws, on the ground that the issuance of such securities is exempt pursuant to Section 4(2) of the Act and state law exemptions relating to offers and sales not by means of a public offering, and that the Company's reliance on such exemptions is predicated on the undersigned's representations set forth herein.

(c) The undersigned agrees that in no event will the undersigned make a disposition of any Warrant Shares acquired upon the exercise of the Warrant unless and until (i) the undersigned shall have notified the Company of the proposed disposition and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition, and (ii) the undersigned shall have furnished the Company with an opinion of counsel satisfactory to the Company and Company's counsel to the effect that (A) appropriate action

necessary for compliance with the Act and any applicable state securities laws has been taken or an exemption from the registration requirements of the Act and such laws is available, and (B) the proposed transfer will not violate any of said laws.

(d) The undersigned acknowledges that an investment in the Company is highly speculative and represents that the undersigned is able to fend for himself, herself or itself in the transactions contemplated by this Statement, has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of the undersigned's investments, and has the ability to bear the economic risks (including the risk of a total loss) of the undersigned's investment. The undersigned

represents that the undersigned has had the opportunity to ask questions of the Company concerning the Company's business and assets and to obtain any additional information which the undersigned considered necessary to verify the accuracy of or to amplify the Company's disclosures, and has had all questions which have been asked, satisfactorily answered by the Company.

(e) The undersigned acknowledges that the Warrant Shares issuable upon exercise of the Warrant must be held indefinitely unless subsequently registered under the Act or an exemption from such registration is available. The undersigned is aware of the provisions of Rule 144 promulgated under the Securities Act of 1933 (the "Act") which permit limited resale of shares purchased in a private placement subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the resale occurring not less than one year after a party has purchased and paid for the security to be sold, the sale being through a "broker's transaction" or in transactions directly with a "market maker" (as provided by Rule 144(f)) and the number of shares being sold during any three-month period not exceeding specified limitations.

(f) The undersigned represents that he is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the Act.

HOLDER:

- ---------------------------------
Signature of Holder of Warrant

- ---------------------------------
Name of Holder of Warrant (print)

- ---------------------------------
Date

EXHIBIT 10.4

STRATIVATION, INC.

SUBSCRIPTION AGREEMENT

SUBSCRIPTION AGREEMENT ("Subscription Agreement") made as of this 7 day of March, 2007, by and among Strativation, Inc., a Delaware corporation ("PUBCO" or the "COMPANY"), CNS Response, Inc., a California corporation, a wholly owned subsidiary of the Company ("CNSR") and the undersigned (the "SUBSCRIBER").

WHEREAS, the Company, the Company's wholly-owned subsidiary, CNSR Merger Corporation, and CNSR are parties to a certain Agreement and Plan of Merger dated as of January 16, 2007, as amended (the "MERGER AGREEMENT"), pursuant to which a newly organized, wholly owned subsidiary of the Company will merge with and into CNSR, CNSR will become a wholly owned subsidiary of the Company, and the existing CNSR stockholders will obtain majority ownership and control of the Company (the "MERGER"). On the date on which the Merger becomes effective (the "INITIAL CLOSING DATE"), the Company will change its name to CNS Response, Inc. and will assume, through CNSR, its business and operations.

WHEREAS, as a condition to the closing of the Merger, the Company intends to obtain subscriptions for the purchase and sale, in a private placement transaction (the "OFFERING") pursuant to Regulation D promulgated under the Securities Act of 1933, as amended (the "ACT"), of Units (the "Units") consisting of (i) one (1) share of the Company's common stock, par value $.001 per share ("COMMON STOCK"), and (ii) three-tenths (3/10) of a five (5) year warrant to purchase one (1) share of the Company's Common Stock at an initial exercise price of $1.80 per share (the "WARRANTS" and the Common Stock issuable upon the exercise of the Warrants the "WARRANT SHARES"), on the terms and conditions hereinafter set forth, and the Subscriber desires to acquire that number of Units set forth on the signature page hereof.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto do hereby agree as follows:

1. PURCHASE AND SALE OF THE SECURITIES.

1.1 The Company hereby agrees to issue and to sell to Subscriber, and Subscriber hereby agrees to purchase from the Company, a number of Units for the aggregate subscription amount set forth on the signature page hereto. Upon acceptance of this Subscription Agreement by the Company, the Company shall issue and deliver to Subscriber Common Stock and Warrant certificates evidencing the Securities underlying the Units subscribed for against payment in U.S. Dollars of the Purchase Price (as defined below), reflecting a price of $1.20 per Unit.

1.2 The subscription period will begin as of January 16, 2007 and will terminate at 5:00 PM Eastern Standard Time on the later of (a) March 15, 2007, and (b) if the Initial Closing occurs on or prior to March 15, 2007, the date that is forty-five (45) calendar days after the Initial Closing Date (the "TERMINATION DATE"), unless extended by the Company. The Units will be offered on a "best efforts" basis as more particularly set forth in the Amended and Restated Confidential Private Placement Memorandum dated February 2007 and any supplements thereto (the "OFFERING MEMORANDUM").

1.3 Placement of Units will be made by Brean Murray, Carret & Co. (the "PLACEMENT AGENT"), who will receive certain compensation therefor as provided in its Engagement Agreement, which is more fully described in the Offering Memorandum.

1.4 Subscriber understands and acknowledges that this subscription is part of a proposed placement by the Company of a minimum of $7,005,000 of Units (the "MINIMUM OFFERING AMOUNT"). Subscriber understands that payments hereunder as to the Offering will be held in an escrow account established by the Company pursuant to an escrow agreement (the "ESCROW AGREEMENT") by and among the Placement Agent, CNSR, the Company and Signature Bank as escrow agent (the "ESCROW AGENT"), and shall, to the extent received prior to the Initial Closing Date, be paid over to the Company at the closing of the purchase of the Minimum Offering Amount in the Offering (the "INITIAL CLOSING") to occur on the Initial Closing Date (as described in the Memorandum). If the Minimum Offering Amount is not obtained by the Termination Date or any extended period, the funds held therein will be returned to the subscribers without interest or deduction.

1.5 The minimum dollar amount of Units that may be purchased by the Subscriber is $27,000 unless CNSR and PubCo waive the requirement. The consummation of the Offering is subject to the satisfaction of a number of conditions, as further described in the Offering Memorandum, one or more of which conditions may not occur.

1.6 Subscriber has delivered and paid concurrently herewith the

purchase price (the "PURCHASE Price") set forth on the signature page hereof required to purchase the Units subscribed for hereunder which amount has been paid in U.S. Dollars by wire transfer or check, subject to collection, to the order of "Signature Bank, Strativation, Inc. Escrow Account."

1.7 The certificates for the Common Stock together with the accompanying Warrants bearing the name of the Subscriber will be delivered by the Company no later than fifteen (15) days following the Closing Date. The Subscriber hereby authorizes and directs the Company to deliver the securities to be issued to such Subscriber pursuant to this Subscription Agreement to the residential or business address indicated in the Investor Questionnaire.

1.8 The Company and/or CNSR may, in their sole discretion, reject any subscription, in whole or in part, or terminate or withdraw the Offering in its entirety at any time prior to a closing in relation thereto. Neither the Company nor the Placement Agent shall be required to allocate among investors on a pro rata basis in the event of an over-subscription.

2. REPRESENTATIONS AND COVENANTS OF SUBSCRIBER

2.1 The Subscriber recognizes that the purchase of Units involves a high degree of risk in that (i) the Company will need additional capital but has no assurance of additional necessary capital; (ii) an investment in the Company is highly speculative and only investors who can afford the loss of their entire investment should consider investing in the Company and the Units; (iii) an investor may not be able to liquidate his investment; (iv) transferability of the securities comprising the Units is extremely limited; (v) an investor could sustain the loss of his entire investment; and (vi) the Company is and will be subject to numerous other risks and uncertainties, including without limitation, significant and material risks relating to the Company's business and the business and operations of CNSR, and the industries and markets in which the Company will compete, as well as risks associated with the Offering, the Merger

and the other transactions contemplated herein, in the Offering Memorandum and in the Merger Agreement, all as more fully set forth herein and in the Offering Memorandum. For the avoidance of doubt, all references to the Company in this Section 2.1 include the Company's business and operations after it acquires the business and operations of CNSR through the Merger.

2.2 The Subscriber represents that he, she or it is an "accredited investor" as such term is defined in Rule 501 of Regulation D promulgated under the Act, as indicated by his responses to the Investor Questionnaire, the form of which is attached hereto as EXHIBIT A, and that he, she or it is able to bear the economic risk of an investment in the Units. The Subscriber must complete the Investor Questionnaire to enable the Company and CNSR to access the Subscriber's eligibility for the Offering.

2.3 The Subscriber acknowledges that he, she or it has prior investment experience, including without limitation, investment in non-listed and non-registered securities, or he, she or it has employed the services of an investment advisor, attorney or accountant to read all of the documents furnished or made available by the Company or CNSR both to him, her or it and to all other prospective investors in the Units and to evaluate the merits and risks of such an investment on his behalf, and that he, she or it recognizes the highly speculative nature of this investment.

2.4 The Subscriber acknowledges receipt and careful review of the Offering Memorandum, this Subscription Agreement, the form of Warrant and the attachments hereto and thereto (collectively, the "OFFERING DOCUMENTS") and hereby represents that he, she or it has been furnished or given access by the Company or CNSR during the course of this Offering with or to all information regarding the Company and CNSR and their respective financial conditions and results of operations which he, she or it had requested or desired to know; that all documents which could be reasonably provided have been made available for his inspection and review; that he, she or it has been afforded the opportunity to ask questions of and receive answers from duly authorized representatives of the Company and CNSR concerning the terms and conditions of the Offering, and any additional information which he, she or it had requested. The Subscriber further represents and acknowledges that the Subscriber has not seen or received any advertisement or general solicitation with respect to the sale of any of the securities of the Company, including, without limitation, the Units.

2.5 The Subscriber acknowledges that this Offering of Units may involve tax consequences, and that the contents of the Offering Documents do not contain tax advice or information. The Subscriber acknowledges that he, she or it must retain his own professional advisors to evaluate the tax and other consequences of an investment in the Units.

2.6 The Subscriber acknowledges that this Offering of Units has not been reviewed or approved by the United States Securities and Exchange Commission ("SEC") because the Offering is intended to be a nonpublic offering

pursuant to Section 4(2) of the Act. The Subscriber represents that the Units are being purchased for his own account, for investment and not for distribution or resale to others. The Subscriber agrees that he, she or it will not sell or otherwise transfer any of the securities comprising the Units unless they are registered under the Act or unless an exemption from such registration is available and, upon the Company's request, the Company receives an opinion of counsel reasonably satisfactory to the Company confirming that an exemption from such registration is available for such sale or transfer.

2.7 The Subscriber understands that the Units have not been registered under the Act by reason of a claimed exemption under the provisions of the Act which depends, in part, upon his investment intention. The Subscriber realizes that, in the view of the SEC, a purchase now with the intention to distribute would represent a purchase with an intention inconsistent with his representation to the Company, and the SEC might regard such a distribution as a deferred sale to which such exemption is not available.

2.8 The Subscriber understands that Rule 144 (the "RULE") promulgated under the Act requires, among other conditions, a one year holding period prior to the resale (in limited amounts) of securities acquired in a non-public offering, such as the Offering, without having to satisfy the registration requirements under the Act. Except as specifically set forth in SECTION 4.10 hereof, the Subscriber understands that the Company makes no representation or warranty regarding its fulfillment in the future of any reporting requirements under the Securities Exchange Act of 1934, as amended (the "EXCHANGE Act"), or its dissemination to the public of any current financial or other information concerning the Company, as is required by Rule 144 as one of the conditions of its availability. The Subscriber consents that the Company may, if it desires, permit the transfer of the Common Stock included in the Units or issuable upon the exercise of the Warrants out of his name only when his request for transfer is accompanied by an opinion of counsel reasonably satisfactory to the Company that neither the sale nor the proposed transfer results in a violation of the Act, any applicable state "blue sky" laws or any applicable securities laws of any other country, province or jurisdiction (collectively, "SECURITIES Laws"). The Subscriber agrees to hold the Company, CNSR and their respective directors, officers and controlling persons and their respective heirs, representatives, successors and assigns harmless and to indemnify them against all liabilities, costs and expenses incurred by them as a result of any misrepresentation made by him, her or it contained herein or in the Investor Questionnaire or any sale or distribution by the undersigned Subscriber in violation of any Securities Laws.

2.9 The Subscriber consents to the placement of one or more legends on any certificate or other document evidencing his Units and the Common Stock or Warrants included in the Units or issuable upon the exercise of the Warrants stating that they have not been registered under the Act and are subject to the terms of this Subscription Agreement, and setting forth or referring to the restrictions on the transferability and sale thereof.

2.10 The Subscriber understands that the Company and CNSR will review this Subscription Agreement and the Investor Questionnaire and, if the Subscriber is a natural person, the Company and CNSR are hereby given authority by the undersigned to call his bank or place of employment. The Subscriber further authorizes the Company and CNSR to review the financial standing of the Subscriber; and the Subscriber agrees that the Company and CNSR reserve the unrestricted right to reject or limit any subscription and to close the offer at any time.

2.11 The Subscriber hereby represents that the address of Subscriber furnished by him, her or it at the end of this Subscription Agreement and in the Investor Questionnaire is the undersigned's principal residence if he or she is an individual or its principal business address if it is a corporation or other entity.

2.12 The Subscriber acknowledges that if the Subscriber is a Registered Representative of a National Association of Securities Dealers, Inc. ("NASD") member firm, he, she or it must give such firm the notice required by the NASD Conduct Rules, or any applicable successor rules of the NASD, receipt of which must be acknowledged by such firm on the signature page

hereof. The Subscriber shall also notify the Company if the Subscriber or any affiliate of Subscriber is a registered broker-dealer with the SEC, in which case the Subscriber represents that the Subscriber is purchasing the Units in the ordinary course of business and, at the time of purchase of the Units, has no agreements or understandings, directly or indirectly, with any person to distribute the Units or any portion thereof.

2.13 The Subscriber hereby represents that, except as set forth in the

Offering Documents, no representations or warranties have been made to the Subscriber by either the Company or CNSR or their agents, employees or affiliates and in entering into this transaction, the Subscriber is not relying on any information, other than that contained in the Offering Documents.

2.14 The Subscriber agrees that he, she or it will purchase securities in the Offering only if his intent at such time is to make such purchase for investment purposes and not with a view toward resale.

2.15 If the undersigned Subscriber is a partnership, corporation, trust or other entity, such partnership, corporation, trust or other entity further represents and warrants that: (i) it was not formed for the purpose of investing in the Company; (ii) it is authorized and otherwise duly qualified to purchase and hold the Units; and (iii) that this Subscription Agreement has been duly and validly authorized, executed and delivered and constitutes the legal, binding and enforceable obligation of the undersigned.

2.16 If the Subscriber is not a United States person, such Subscriber hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the Units or any use of this Subscription Agreement, including (i) the legal requirements within its jurisdiction for the purchase of the Units, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained, and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Units. Such Subscriber's subscription and payment for, and his or her continued beneficial ownership of the Units and of the shares of Common Stock included therein or issuable upon the exercise of the Warrants, will not violate any applicable securities or other laws of the Subscriber's jurisdiction.

2.17 The undersigned hereby covenants and agrees that neither it nor any of its affiliates has or will have an open position (e.g., short sale) in the Common Stock or any Warrant Shares prior to the Registration Statement (as defined below) being declared effective by the SEC with the intent of covering such open position with Common Stock or Warrant Shares being registered in the Registration Statement. The undersigned hereby acknowledges and understands that the SEC has taken the position that such an open position would constitute a violation of Section 5 of the Act.

2.18 The Subscriber acknowledges that (i) the Offering Memorandum contains material, non-public information concerning the Company within the meaning of Regulation FD promulgated by the SEC, and (ii) the Subscriber is obtaining such material, non-public information solely for the purpose of considering whether to purchase the Units pursuant to a private placement that is exempt from registration under the Act. In accordance with Regulation FD and other applicable provisions of the Securities Laws, the Subscriber agrees to keep such information confidential and not to disclose it to any other person or entity except the

Subscriber's legal counsel, other advisors and other representatives who have agreed (i) to keep such information confidential, (ii) to use such information only for the purpose set forth above, and (iii) to comply with applicable securities laws with respect to such information. In addition, the Subscriber further acknowledges that the Subscriber and such legal counsel, other advisors and other representatives are prohibited from trading in the Company's securities while in possession of material, non-public information and agrees to refrain from purchasing or selling securities of the Company until such material, non-public information has been publicly disseminated by the Company. The Subscriber agrees to indemnify and hold harmless the Company, CNSR and their respective officers, directors, employees and affiliates and each other person, if any, who controls any of the foregoing, against any loss, liability, claim, damage and expense whatsoever (including, but not limited to, any and all expenses whatsoever reasonably incurred in investigating, preparing or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representation or warranty by the Subscriber, or the Subscriber's breach of, or failure to comply with, any covenant or agreement made by the Subscriber herein or in any other document furnished by the Subscriber to the Company, CNSR or their respective officers, directors, employees or affiliates or each other person, if any, who controls any of the foregoing in connection with this transaction.

2.19 The Subscriber understands and acknowledges that (i) the Units are being offered and sold to Subscriber without registration under the Act in a private placement that is exempt from the registration provisions of the Act under Section 4(2) of the Act and (ii) the availability of such exemption depends in part on, and that the Company will rely upon the accuracy and truthfulness of, the foregoing representations, and such Subscriber hereby consents to such reliance.

3. REPRESENTATIONS BY THE COMPANY AND CNSR

Except as set forth in the reports filed by the Company pursuant to the Securities Exchange Act of 1934, as amended (the "SEC REPORTS"), each of the Company and, as applicable, CNSR, severally represent and warrant to the Subscriber that:

3.1 ORGANIZATION AND AUTHORITY. The Company and CNSR, and each of their respective subsidiaries, (i) is a corporation validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as presently conducted, and (iii) has all requisite corporate power and authority to execute, deliver and perform their obligations under this Subscription Agreement and the Offering Documents being executed and delivered by it in connection herewith, and to consummate the transactions contemplated hereby and thereby.

3.2 QUALIFICATIONS. The Company and CNSR, and each of their respective subsidiaries, is duly qualified to do business as a foreign corporation and is in good standing in all jurisdictions where such qualification is necessary and where failure so to qualify could have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company and its subsidiaries (after the effective time of the Merger), taken as a whole.

3.3 CAPITALIZATION OF THE COMPANY. Immediately after the effective time of the Merger (but before the closing of this Offering), the authorized capital stock of the Company will consist of 750,000,000 shares of Common Stock, $0.001 par value per share. Of the authorized capital stock of the Company, immediately after the effective time of the Merger (but before the

closing of this Offering), there will be outstanding 18,603,191 shares of Common Stock. Except as a result of the purchase and sale of the Units as contemplated in the Merger Agreement, or as disclosed in the SEC Reports or the Offering Documents, there are no additional outstanding options, warrants, script rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exchangeable for, or giving any person any right to subscribe for or acquire from the Company, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any subsidiary is or may become bound to issue additional shares of Common Stock, or securities or rights convertible or exchangeable into shares of Common Stock. Except as described in the Offering Documents, the issuance and sale of the Units will not obligate the Company to issue shares of Common Stock or other securities to any person (other than the Subscribers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities. The shares of the Company's capital stock outstanding immediately after the effective time of the Merger (but before the closing of the Offering) are or will be duly authorized and validly issued and are or will be fully paid and nonassessable. None of the outstanding shares of Common Stock or options, warrants, or rights or other securities entitling the holders to acquire Common Stock has been issued in violation of the preemptive rights of any security holder of the Company. No holder of any of the Company's securities has any rights, "demand," "piggy-back" or otherwise, to have such securities registered by reason of the intention to file, filing or effectiveness of the Registration Statement (as defined below), except as contemplated by the Merger Agreement and as described in the Offering Documents. The Common Stock and the Warrants to be issued to the Subscriber have been duly authorized, and when issued and paid for in accordance with this Subscription Agreement, the Common Stock will be duly and validly issued, fully paid and non-assessable, and the Warrant Shares, when issued upon exercise of the Warrants in exchange for the payment in full of the exercise price for such Warrant Share therein specified, will be duly and validly issued, fully paid and non-assessable. The Common Stock is eligible for quotation on the NASD OTC Bulletin Board, the Company and the Common Stock meets the criteria for continued quotation and trading on the OTC Bulletin Board, and no suspension of trading in the Common Stock is in effect.

3.4 CORPORATE AUTHORIZATION. The Offering Documents have been duly and validly authorized by the Company and CNSR. This Subscription Agreement, assuming due execution and delivery by the Subscriber, and the Warrants, when the Subscription Agreement and the Warrants are executed and delivered by the Company, will be, valid and binding obligations of the Company, enforceable in accordance with their respective terms, except as the enforceability hereof and thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally and general principles of equity, regardless of whether enforcement is considered in a proceeding in equity or at law.

3.5 NON-CONTRAVENTION. The execution and delivery of the Offering Documents by the Company and CNSR, the issuance of the Units as contemplated by the Offering Documents and the completion by the Company and CNSR of the other transactions contemplated by the Offering Documents do not and will not, with or

without the giving of notice or the lapse of time, or both, (i) result in any violation of any provision of the articles of incorporation or by-laws or similar instruments of the Company or CNSR or their respective subsidiaries, (ii) conflict with or result in a breach by CNSR or its subsidiaries of any of the terms or provisions of, or constitute a

default under, or result in the modification of, or result in the creation or imposition of any lien, security interest, charge or encumbrance upon any of the properties or assets of CNSR or its subsidiaries, pursuant to any agreements, instruments or documents filed as exhibits to the SEC Reports or any indenture, mortgage, deed of trust or other agreement or instrument to which CNSR or any of its subsidiaries is a party or by which CNSR or any of its subsidiaries or any of its properties or assets are bound or affected, in any such case which would have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of CNSR and its subsidiaries, taken as a whole, or the validity or enforceability of, or the ability of CNSR to perform their obligations under, the Offering Documents, (iii) violate or contravene any applicable law, rule or regulation or any applicable decree, judgment or order of any court, United States federal or state regulatory body, administrative agency or other governmental body having jurisdiction over CNSR or any of its subsidiaries or any of its properties or assets that would have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the CNSR and its subsidiaries (after the effective time of the Merger), taken as a whole, or the validity or enforceability of, or the ability of the Company or CNSR to perform its obligations under, the Offering Documents, or (iv) have any material adverse effect on any permit, certification, registration, approval, consent, license or franchise necessary for CNSR or its subsidiaries (after the effective time of the Merger) to own or lease and operate any of its properties and to conduct any of its business or the ability of CNSR or its subsidiaries to make use thereof.

3.6 INFORMATION PROVIDED. The Company hereby represents and warrants to the Subscriber that the information set forth in the Offering Memorandum, the SEC Reports and any other document provided by the Company (or the Company's authorized representatives) to the Subscriber in connection with the transactions contemplated by this Subscription Agreement, does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading, it being understood that for purposes of this Section 3.6, any statement contained in such information shall be deemed to be modified or superseded for purposes of this Section 3.6 to the extent that a statement in any document included in such information which was prepared and furnished to the Subscriber on a later date or filed with the SEC on a later date modifies or replaces such statement, whether or not such later prepared and furnished or filed statement so states. CNSR hereby represents and warrants to the Subscriber that the information set forth in the Offering Memorandum and any other document provided by CNSR (or CNSR's authorized representatives) to the Subscriber in connection with the transactions contemplated by this Subscription Agreement, does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they are made, not misleading.

3.7 ABSENCE OF CERTAIN PROCEEDINGS. CNSR is not aware of any action, suit, proceeding, inquiry or investigation before or by any court, public board or body, or governmental agency pending or threatened against or affecting CNSR or any of its subsidiaries, in any such case wherein an unfavorable decision, ruling or finding would have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of the Company or CNSR, or the transactions contemplated by the Offering Documents or which could adversely affect the validity or enforceability of, or the authority or ability of the Company or CNSR to perform its obligations under, the Offering

Documents; and to the Company's and CNSR's knowledge there is not pending or contemplated any, and there has been no, investigation by the SEC involving CNSR or any of its current or former directors or officers.

3.8 COMPLIANCE WITH LAW. Neither CNSR nor any of its subsidiaries is in violation of or has any liability under any statute, law, rule, regulation, ordinance, decision or order of any governmental agency or body or any court, domestic or foreign, except where such violation or liability would not individually or in the aggregate have a material adverse effect on the business, properties, operations, condition (financial or other), results of operations or prospects of CNSR or any of its subsidiaries (after the effective time of the Merger), taken as a whole; and to the knowledge of CNSR there is no pending investigation that would reasonably be expected to lead to such a claim.

3.9 TAX MATTERS. CNSR and its subsidiaries have filed all federal, state and local income and franchise tax returns required to be filed and has paid all taxes shown by such returns to be due, and no tax deficiency has been determined adversely to CNSR or any of its subsidiaries which has had (nor does CNSR or any of its subsidiaries have any knowledge of any tax deficiency which, if determined adversely to CNSR or any of its subsidiaries, might have) a material adverse effect on the business, properties, operations, condition (financial or other), results of operations, or prospects of CNSR or any of its subsidiaries (after the effective time of the Merger), taken as a whole.

4. REGISTRATION RIGHTS

Subscriber shall have the registration right set forth on Annex A attached hereto.

5. MISCELLANEOUS

5.1 Any notice or other document required or permitted to be given or delivered hereunder shall be in writing and sent (i) by fax if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid) or (c) by a recognized overnight delivery service (with charges prepaid).

If to the Company or to CNS, at:

CNS Response, Inc.
2755 Bristol Street, Suite 285
Costa Mesa, CA 92626
Attn: President
Tel: (949) 248-5461
Fax: (949) 248-5449

or such other address as it shall have specified to the Subscriber in writing, with a copy (which shall not constitute notice) to:

Stubbs Alderton & Markiles LLP
15260 Ventura Blvd., 20th Floor
Sherman Oaks, CA 91403

Attn: Scott Alderton, Esq.
Tel: (818) 444-4501
Fax: (818) 474-8601

If to the Subscriber, at its address set forth on the signature page to this Subscription Agreement, or such other address as it shall have specified to the Company in writing, with a copy (which shall not constitute notice) to:

Brean Murray, Carret & Co.
570 Lexington Avenue
New York, New York 10022
Attn: Anna Varga
Tel: (212) 702-6572; Fax: (212) 702-6548

5.2 This Subscription Agreement may be amended through a written instrument signed by the Subscriber, CNSR and the Company; provided, however, that the terms of Section 4 of this Subscription Agreement may be amended without the consent or approval of the Subscriber so long as such amendment applies in the same fashion to the subscription agreements of all of the other subscribers for Units in the Offering and at least holders of a majority of the Units sold in the Offering have given their approval of such amendment, which approval shall be binding on all holders of Units.

5.3 Notwithstanding the place where this Subscription Agreement may be executed by any of the parties hereto, the parties expressly agree that all the terms and provisions hereof shall be construed in accordance with and governed by the laws of the State of Delaware.

5.4 This Subscription Agreement may be executed in counterparts. It shall not be binding upon the Company and CNSR unless and until it is accepted by the Company and CNSR. Upon the execution and delivery of this Subscription Agreement by the Subscriber, this Subscription Agreement shall become a binding obligation of the Subscriber with respect to the purchase of Units as herein provided; subject, however, to the right hereby reserved to the Company to enter into the same agreements with other subscribers and to add and/or to delete other persons as subscribers.

5.5 The holding of any provision of this Subscription Agreement to be

invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Subscription Agreement, which shall remain in full force and effect.

5.6 It is agreed that a waiver by either party of a breach of any provision of this Subscription Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

5.7 The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Subscription Agreement.

5.8 The Company agrees not to disclose the names, addresses or any other information about the Subscribers, except as required by law, provided that the Company may provide information relating to the Subscriber as required in any registration statement under the Act that may be filed by the Company pursuant to the requirements of this Subscription Agreement.

5.9 The obligation of the Subscriber hereunder is several and not joint with the obligations of any other subscribers for the purchase of Units in the Offering (the "Other Subscribers"), and the Subscriber shall not be responsible in any way for the performance of the obligations of any Other Subscribers. Nothing contained herein or in any other agreement or document delivered at the closing of the sale of the Units hereby, and no action taken by the Subscriber pursuant hereto, shall be deemed to constitute the Subscriber and the Other Subscribers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Subscriber and the Other Subscribers are in any way acting in concert with respect to such obligations or the transactions contemplated by this Subscription Agreement. The Subscriber shall be entitled to protect and enforce the Subscriber's rights, including without limitation the rights arising out of this Subscription Agreement, and it shall not be necessary for any Other Subscriber to be joined as an additional party in any proceeding for such purpose. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. The Subscriber is not acting as part of a "group" (as that term is used in Section 13(d) of the 1934 Act) in negotiating and entering into this Subscription Agreement or purchasing the Units or acquiring, disposing of or voting any of the underlying shares of Common Stock or the Warrant Shares. The Company hereby confirms that it understands and agrees that the Subscriber is not acting as part of any such group.

[SIGNATURE PAGE FOLLOWS]

SIGNATURE PAGE FOR INDIVIDUALS:

IN WITNESS WHEREOF, Subscriber has caused this Subscription Agreement to be executed as of the date indicated below.

_____ (multiple of 10)
Number of Units Subscribed For

$ _____ (at $1.20 per Unit)
Purchase Price

- ----------
Print or Type Name

- ----------
Signature

- ----------
Date

- ----------
Social Security Number

- ----------

Address

Please check if applicable and include co-owner's information below (name, address, social security number):

_____ Joint Tenancy _____ Tenants in Common

Co-Owner:

- _____
- _____
- _____
- _____

PARTNERSHIPS, CORPORATIONS OR OTHER ENTITIES:

IN WITNESS WHEREOF, Subscriber has caused this Subscription Agreement to be executed as of the date indicated below.

_____ (multiple of 10)
Number of Units Subscribed For

$ _____(at $1.20 per Unit)
Purchase Price

- _____
Print or Type Name of Entity

- _____
Address

- _____ _____
Taxpayer I.D. No. Date

- _____ _____
Signature Print or Type Name and Indicate Title or Position with Entity

IN WITNESS WHEREOF, the Company and CNSR have caused this Subscription Agreement to be executed, and the foregoing subscription accepted, as of the date indicated below.

STRATIVATION, INC.

By: _____
Name: Leonard J. Brandt
Title: Chief Executive Officer and President

Date: _____

CNS RESPONSE, INC.

By: _____
Name: Leonard J. Brandt
Title: Chief Executive Officer and President

Date: _____

ANNEX A

(TO SUBSCRIPTION AGREEMENT)

REGISTRATION RIGHTS

Strativation, Inc. hereby grants to the Subscriber, as a Holder, the following registration rights.

1. DEFINITIONS.

Capitalized terms used herein without definition shall have the respective meanings given such terms as set forth in the Subscription Agreement between Strativation, Inc., CNSR and the subscriber signatory thereto (the "SUBSCRIPTION AGREEMENT") or in the Company's Amended and Restated Confidential Private Placement Memorandum, dated as of February 2007 (as amended or supplemented).

BUSINESS DAY: Any day other than a day on which banks are authorized or required to be closed in the State of New York.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

HOLDER OR HOLDERS: Any holder of the Registrable Securities.

PERSON: Any individual, corporation, partnership, joint venture, association, joint -stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

PROSPECTUS: The prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, and all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

REGISTRABLE SECURITIES: Each issued and outstanding share of Common Stock (i) included in the Units, and (ii) issuable upon exercise of the Warrants included in the Units, until such time as such shares of Common Stock (a) have been sold pursuant to, or are subject to, an effective registration statement under the Act, (b) have been sold pursuant to Rule 144, or (b) may be sold without any time, volume or manner limitations pursuant to section (k) of Rule 144.

RULE 144: Rule 144 promulgated by the Commission pursuant to the Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

REGISTRATION STATEMENT: Any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statements, including post effective amendments, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

TRADING DAY: A day on whichever (a) the national securities exchange, (b) the Nasdaq Stock Market, or (c) such other securities market, in any such case which at the time constitutes the principal securities market for the Common Stock, is open for general trading of securities.

2. REGISTRATION RIGHTS.

(a) AUTOMATIC REGISTRATION. Within 45 days following the Initial Closing Date (the "FILING Deadline"), the Company shall prepare and file with the Commission a registration statement on Form SB-2 or other appropriate registration document under the Act relating to the resale by the Holders of the Registrable Securities held by all Holders, and up to 767,103 additional shares of Common Stock held by persons having similar registration rights (the "INITIAL REGISTRATION SHARES"). The Company shall use commercially reasonable efforts to

ensure that such Registration Statement (the "INITIAL REGISTRATION STATEMENT") is declared effective within 150 days of the Initial Closing Date (the "EFFECTIVENESS DEADLINE"). The Company will agree to take all actions as are necessary to keep the Initial Registration Statement effective until the date on which all securities registered thereunder may be sold without any restriction, under Rule 144 during any 90-day period in accordance with all rules and regulations regarding sales of securities pursuant to Rule 144 (the "EFFECTIVENESS PERIOD"). If: (i) such Initial Registration Statement is not filed on or prior to the Filing Deadline, (ii) such Initial Registration Statement is not declared effective by the Commission (or otherwise does not become effective) on or prior to its Effectiveness Deadline or (iii) after its effective date, such Initial Registration Statement ceases for any reason (including without limitation by reason of a stop order, or the Company's failure to update the Registration Statement), but excluding the inability of any Holder to sell the Registrable Securities covered thereby due to market conditions, to remain continuously effective and available to the Holders as to all Registrable Securities to which it is required to cover at any time prior to the date that is one year from the Initial Closing Date, for an aggregate of more than 30 consecutive Trading Days or for more than an aggregate of 60 Trading Days in any 12-month period (which need not be consecutive), (any such failure or breach in clauses (i), (ii) or (iii) above being referred to as an "EVENT," and, for purposes of clauses (i) or (ii), the date on which such Event occurs, or for purposes of clause (iii), the date which such 30 consecutive or 60 Trading Day period (as applicable) is exceeded, being referred to as "EVENT DATE"), then in addition to any other rights available to the Holders: on each monthly anniversary of each such Event Date thereof (if the applicable Event

shall not have been cured by such date) until the earlier of the date the applicable Event is cured and the one-year anniversary of the Initial Closing Date, the Company shall pay to each Holder an amount in cash, as liquidated damages and not as a penalty, equal to 1.0% of the aggregate purchase price paid by such Holder pursuant to the Purchase Agreement for the Registrable Securities then held by such Holder (which remedy shall not be exclusive of any other remedies available under this Agreement) (the "LIQUIDATED DAMAGES"). If the Company fails to pay any partial liquidated damages pursuant to this Section in full within ten (10) days after the date payable, the Company will pay interest thereon at a rate of 8% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to the Holder, accruing daily from the date such partial Liquidated Damages are due until such amounts, plus all such interest thereon, are paid in full. The partial liquidated damages pursuant to the terms hereof shall apply on a daily pro-rata basis for any portion of a month prior to the cure of an Event. Notwithstanding the foregoing, the Liquidated Damages payable to a Holder associated with all Events (i) shall not exceed in any 30-day period, an aggregate of 1.0% of the purchase price paid by such Holder for its Registrable Securities (plus interest accrued thereon, if applicable) and (ii) shall not accrue after the one-year anniversary of the Initial Closing Date. For the avoidance of doubt, any right to receive such cash payment shall be Holder's sole and exclusive remedy for the failure of the Company to satisfy its obligations under this Section 2(a).

Notwithstanding anything above to the contrary, if, as a consequence of receiving comments or objections from the SEC with respect to the Initial Registration Statement filed pursuant to this Section 2(a), the Company reasonably determines that, in order to use Form SB-2 to register the Registrable Securities, the Company must limit the number of shares of Common Stock being registered, then the Company may, without penalty, exclude some of the Initial Registration Shares, on a pro rata basis among all holders of such securities, from such registration (the "EXCLUDED SECURITIES"). For the purpose of clarity, the Company shall not be required to (i) register any Excluded Securities (except as may be provided in Sections 2(b) and 2(c) hereof), or (ii) pay any Liquidated Damages otherwise due under this Section 2(a) with respect to any Excluded Securities.

(b) DEMAND REGISTRATION RIGHT. If the Company receives at any time after the date that is twelve (12) months from the Initial Closing Date, a written request (a "DEMAND REQUEST") from the holders of a majority of the outstanding Registrable Securities issued and outstanding at the time of such Demand Request (the "MAJORITY HOLDERS") who hold not less than 275,000 Registrable Securities at the time of such Demand Request, that the Company register any such Registrable Securities, then the Company shall, within ten (10) days after receipt of such Demand Request, give written notice of such request ("DEMAND REQUEST NOTICE") to all Holders of Registrable Securities. Each Demand

Request Notice shall (x) specify the number of Registrable Securities that the Majority Holders intend to sell or dispose of, (y) state the intended method or methods of sale or disposition of such Registrable Securities and, if applicable, (z) specify the expected price range (net of underwriting discounts and commissions) acceptable to the Majority Holders to be received for such Registrable Securities. Unless the Registration Statement covers an underwritten offering, the Company will agree to

take all actions as are necessary to keep any Registration Statement filed pursuant to this Section 2(b) effective until the date on which all Registrable Securities thereunder may be sold without any restriction, under Rule 144 during any 90-day period in accordance with all rules and regulations regarding sales of securities pursuant to Rule 144. Each Holder shall respond promptly and accurately to Company's request at reasonable intervals regarding the amount of Registrable Securities and any other securities of the Company then held by such Subscriber or Holder.

The Company shall file, no later than forty-five (45) days following receipt of a Demand Request (the "DEMAND FILING DATE"), a Registration Statement (the "DEMAND REGISTRATION STATEMENT") covering such Registrable Securities which the Company has been so requested to register by the Majority Holders and any other holders of Registrable Securities who request, within fifteen (15) days of the mailing of the Demand Request Notice, that the Company register their Registrable Securities, providing for the registration under the Securities Act of such Registrable Securities to the extent necessary to permit the disposition of such Securities in accordance with the intended method of distribution specified in such Demand Request, and use its commercially reasonable efforts to have such Demand Registration Statement declared effective by the SEC within one hundred fifty (150) days after the Demand Filing Date. If a registration pursuant to this Section 2(b) involves an underwritten public offering, any Holder requesting to be included in such registration may elect, in writing prior to the effective date of the Registration Statement filed in connection with such registration, not to register such securities in connection with such registration.

The Company may delay making a filing of a Demand Registration Statement in connection with a Demand Request or taking action in connection therewith by not more than ninety (90) days if the Company provides a written certificate signed by the Chief Executive Officer and Chief Financial Officer of the Company to the Holders, prior to the time it would otherwise have been required to file such Demand Registration Statement or take such action pursuant to this SECTION 4.2, stating that the Board has determined in good faith that the filing of such Demand Registration Statement would be seriously detrimental to the Company or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction (collectively, a "VALID BUSINESS REASON") and that it is therefore essential to defer the filing of the Demand Registration Statement; provided, however, that such right to delay a Demand Request shall be exercised by the Company not more than once in any twelve (12)-month period and the Company shall only have the right to delay a Demand Request so long as such Valid Business Reason exists, and during such time, the Company may not file a registration statement for securities to be issued and sold for its own account or for that of anyone other than the Holders.

The Company shall only be obligated to effect one (1) Demand Request pursuant to this SECTION 4.2.

The Majority Holders shall have the right to cancel a proposed registration of Registrable Securities pursuant to this Section 2(b) when the request for cancellation is

based upon material adverse information relating to the Company that is different from the information known to the Majority Holders at the time of the Demand Request. Such cancellation of a registration shall be made in writing and shall not be counted as a Demand Request.

(c) PIGGYBACK REGISTRATION. If, at any time after the date that is six (6) months from the Initial Closing Date, the Company proposes to register any of its securities under the Securities Act for sale to the public for its own account or for the account of other security holders (except with respect to the Initial Registration

Statement, or registration statements on Forms S-4 or S-8 or another form not available for registering the Registrable Securities for sale to the public), each such time it will give written notice thereof to Holders of its intention so to do (such notice to be given at least fifteen (15) days prior to the filing thereof). Upon the written request of any such Holder (which request shall specify the number of Registrable Securities intended to be disposed of by such Holder and the intended method of disposition thereof), received by the Company within ten (10) days after giving of any such notice by the Company, to register any of such Holder's Registrable Securities, the Company will use its commercially reasonable efforts to cause the Registrable Securities as to which registration shall have been so requested to be included in the securities to be covered by the Registration Statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the Holder (in accordance with its written request) of such Registrable Securities so registered ("PIGGYBACK REGISTRATION RIGHTS"); PROVIDED, that if, at any time after giving written notice of its intention to register any securities pursuant to this Section 2(c) and prior to the effective date of the Registration Statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company shall give written notice to all Holders and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration. If a registration pursuant to this Section 2(c) involves an underwritten public offering, any Holder requesting to be included in such registration may elect, in writing prior to the effective date of the registration statement filed in connection with such registration, not to register such securities in connection with such registration. The foregoing provisions notwithstanding, the Company may withdraw any registration statement referred to in this Section 2(c) without thereby incurring any liability to the Holders.

3. UNDERWRITING. If a Registration Statement is for a registered public offering involving an underwriting, the Company shall so advise the Holder(s) in writing or as a part of the written notice given pursuant to Section 2(b) or 2(c), as applicable. In such event the right of any Holder to registration pursuant to Section 2(b) and/or 2(c) shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company and any other stockholders of the Company distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company or selling stockholders, as applicable. Notwithstanding any other provision of this Section 3, if the underwriter or the Company determines that marketing

factors require a limitation of the number of shares to be underwritten, the underwriter may exclude some or all Registrable Securities from such registration and underwriting. The Company shall so advise all Holders (except those Holders who failed to timely elect to distribute their Registrable Securities through such underwriting or have indicated to the Company their decision not to do so), and the number of shares of Registrable Securities that may be included in the registration and underwriting, if any, shall be allocated among such Holders as follows:

(a) In the event of a registration that is initiated by the exercise of demand registration rights by the Majority Holders, then the number of shares that may be included in the registration and underwriting shall be allocated on a pro rata basis according to the number of shares requested to be included by all Holders;

(b) In the event of a registration that is initiated by the Company, the number of shares that may be included in the registration and underwriting shall be allocated first to the Company and then, subject to obligations and commitments existing as of the date hereof, to all selling stockholders, including the Holder(s), who have requested to sell in the registration on a pro rata basis according to the number of shares requested to be included; and

(c) In the event of a registration that is initiated by the exercise of demand registration rights by a stockholder or stockholders of the Company (other than the Holder(s)), then the number of shares that may be included in the registration and underwriting shall be allocated first to such selling stockholders who exercised such demand and then, subject to obligations and commitments existing as of the date hereof, to all other selling stockholders, including the Holder(s), who have requested to sell in the registration, on a pro rata basis according to the number of shares requested to be included.

No Registrable Securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter. The Registrable Securities and/or other securities so withdrawn from such underwriting shall also be withdrawn from such registration; PROVIDED, HOWEVER, that, if by the withdrawal of such Registrable Securities a greater number of Registrable Securities held by other Holders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Holders who have included Registrable Securities in the registration the right to include additional Registrable Securities pursuant to the terms and limitations set forth herein in the same proportion used above in determining the underwriter limitation.

4. REGISTRATION PROCEDURES.

In connection with the registration obligations of the Company pursuant to the terms and conditions of this Agreement, the Company shall:

(a) Prepare and file with the SEC such amendments and supplements to all Registration Statements and each related Prospectus as may be necessary to comply with the provisions of the Act with respect to the disposition of securities covered by such Registration Statements;

(b) Respond as promptly as reasonably practicable to any comments received from the SEC with respect to a Registration Statement or any amendment thereto.

(c) Notify the Holders as promptly as reasonably practicable and (if requested by any such person) confirm such notice in writing no later than one trading day following the day (A) when a Prospectus or any Prospectus supplement or post-effective amendment to a Registration Statement is proposed to be filed and (B) with respect to a Registration Statement or any post-effective amendment, when the same has become effective;

(d) Furnish such number of Prospectuses and other documents incident thereto, including supplements and amendments, as the Holder may reasonably request;

(e) Furnish to the Holder, upon request, a copy of all documents filed with and all correspondence from or to the SEC in connection with any such registration statement other than non-substantive cover letters and the like;

(f) Use its reasonable best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a registration statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment; and

(g) Use its reasonable best efforts to comply with all applicable rules and regulations of the SEC.

Notwithstanding the foregoing, if at any time or from time to time after the date hereof, the Company notifies a Holder whose shares are registered on a Registration Statement (a "SELLING HOLDER") in writing of the existence of an event or circumstance that is not disclosed in such Registration Statement and that may have a material effect on the Company or its business (a "POTENTIAL MATERIAL Event"), the Selling Holder shall not offer or sell any Registrable Securities, or engage in any other transaction involving or relating to the Registrable Securities, from the time of the giving of notice with respect to a Potential Material Event until the Company notifies the Selling Holder that such Potential Material Event either has been added to the Registration Statement by amendment or supplement or no longer constitutes a Potential Material Event; PROVIDED, that the Company may not so suspend the right of a Selling Holder for more than One-Hundred Twenty (120) days during any twelve (12) month period.

5. REGISTRATION EXPENSES.

(a) All expenses incident to the Company's performance of, or compliance with, the provisions hereof, including without limitation, all Commission and securities exchange or NASD registration and filing fees, fees and expenses of compliance with securities or "blue sky" laws (including fees and disbursements of counsel in connection

with "blue sky" qualifications of the Registrable Securities), printing expenses, messenger and delivery expenses, internal expenses (including, without limitation, all salaries and expenses of the Company's officers and employees performing legal or accounting duties), fees and expenses incurred in connection with the listing of the securities to be registered, if any, on each securities exchange on which similar securities issued by the Company are then listed, fees and disbursements of counsel for the Company and its independent certified public accountants (including the expense of any special audit or "cold comfort" letters required by, or incident to, such performance), Securities Act liability insurance (if the Company elects to obtain such insurance), reasonable fees and expenses of any special experts retained by the Company in connection with such registration, fees and expenses of other Persons retained by the Company in connection with each registration hereunder (but not including the fees and expense of legal counsel retained by a Holder or Holders, or any underwriting fees, discounts or commissions attributable to the sale of Registrable Securities) are herein called "Registration Expenses."

(b) The Company will pay all Registration Expenses in connection with each Registration Statement filed pursuant to Section 2 except as otherwise set forth therein. Other than as specifically provided for in Section 2(a) hereto, all expenses to be borne by the Holders in connection with any Registration Statement filed pursuant to Section 2 (including, without limitation, all underwriting fees, discounts or commissions attributable to such sale of Registrable Securities) shall be borne by the participating Holders pro rata in relation to the number of Units of Registrable Securities to be registered by each Holder.

6. INDEMNIFICATION; CONTRIBUTION.

(a) INDEMNIFICATION BY THE COMPANY. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each Holder, its officers, directors and each Person who controls such Holder (within the meaning of the Securities Act), and any agent or investment adviser thereof, against all losses, claims, damages, liabilities and expenses (including reasonable attorneys' fees and costs of investigation) arising out of or based upon any untrue or alleged untrue statement of material fact contained in any Registration Statement, any amendment or supplement thereto, any Prospectus or preliminary Prospectus or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as the same arise out of or are based upon any such untrue statement or omission based upon information with respect to such Holder furnished in writing to the Company by or on behalf of such Holder expressly for use therein; PROVIDED that, in the event that the Prospectus shall have been amended or supplemented and copies thereof as so amended or supplemented, shall have been furnished to a Holder prior to the confirmation of any sales of Registrable Securities, such indemnity with respect to the Prospectus shall not inure to the benefit of such Holder if the Person asserting such loss, claim, damage or liability and who purchased the Registrable Securities from such holder did not, at or prior to the confirmation of the sale of the Registrable Securities to such Person, receive a copy of the Prospectus as so amended or supplemented and the untrue statement or omission of a material fact contained in the Prospectus was corrected in the Prospectus as so amended or supplemented.

(b) INDEMNIFICATION BY HOLDERS OF REGISTRABLE SECURITIES. In connection with any Registration Statement in which a Holder is participating, each such Holder will furnish to the Company in writing such information with respect to the name and address of such Holder and such other information as may be reasonably required for use in connection with any such Registration Statement or Prospectus and agrees to indemnity, to the full extent permitted by law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue statement of a material fact in the Registration Statement or Prospectus or any amendment thereof or supplement thereto or necessary to make the statements therein not misleading, to the extent, but only to the extent, that such untrue or alleged untrue statement relates to any information with respect to such Holder so furnished in writing by such Holder specifically for inclusion in any Prospectus or Registration Statement; PROVIDED, HOWEVER, that such Holder shall not be liable in any such case to the extent that prior to the filing of any such Registration Statement or Prospectus or amendment thereof or supplement

thereto, such Holder has furnished in writing to the Company information expressly for use in such Registration Statement or Prospectus or any amendment thereof or supplement thereto which corrected or made not misleading information previously furnished to the Company. In no event shall the liability of any Selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Selling Holder upon the sale of the Registrable Securities, sold under such Registration Statement or Prospectus as contemplated herein, giving rise to such indemnification obligation.

(c) CONDUCT OF INDEMNIFICATION PROCEEDINGS. Any Person entitled to indemnification hereunder agrees to give prompt written notice to the indemnifying party after the receipt by such Person of any written notice of the commencement of any action, suit, proceeding or investigation or threat thereof made in writing for which such Person will claim indemnification or contribution pursuant to the provisions hereof and, unless in the judgment of counsel of such indemnified party a conflict of interest may exist between such indemnified party and the indemnifying party with respect to such claim, permit the indemnifying party to assume the defense of such claim. Whether or not such defense is assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation. If the indemnifying party is not entitled to, or elects not to, assume the defense of a claim, it will not be obligated to pay the fees and expenses of more than one counsel (plus such local counsel, if any, as may be reasonably required in other jurisdictions) with respect to such claim, unless in the judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim, in which event the indemnifying party shall be obligated to pay the fees and expenses of such additional counsel or counsels. For the purposes of this Section 5(c), the term "conflict of interest" shall mean that there are one or more legal defenses available to the indemnified party that are different from or additional to those available to the indemnifying party or such other indemnified parties, as applicable, which different or additional defenses make joint representation inappropriate.

(d) CONTRIBUTION. If the indemnification from the indemnifying party provided for in this Section 5 is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(e) If indemnification is available under this Section 5, the indemnifying parties shall indemnity each indemnified party to the full extent provided in Sections 5(a) and (b) without regard to the relative fault of said indemnifying party or indemnified party or any other equitable consideration provided for in this Section 5.

7. LIMITATION TO REGISTRATION REQUIREMENT. Notwithstanding anything else herein to the contrary, the Company shall not be obligated to effect any registration of the Registrable Securities or take any other action (i) in any particular jurisdiction in which the Company would be required to

execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Exchange Act, or (ii) during any period in which the Company suspends the rights of a subscriber after giving the Subscriber written notification of a Material Event.

8. TRANSFER OF RIGHTS.

The rights to cause the Company to register Registrable Securities granted pursuant to the provisions hereof may be transferred or assigned by any Holder to a transferee or assignee; PROVIDED; HOWEVER, that the transferee or assignee of such rights assumes the obligations of such transferor or assignor, as the case may be, hereunder.

9. INFORMATION BY HOLDER.

The Holder or Holders of Registrable Securities included in any Registration Statement shall furnish to the Company such information regarding such Holder or Holders and the distribution of securities by such Holder or Holders as the Company may request in writing.

10. COMPLIANCE.

Holder covenants and agrees that such Holder will comply with the prospectus delivery requirements of the Act as applicable to such Holder in connection with sales of Registrable Securities pursuant to the Registration Statements required hereunder.

11. AMENDMENT

Except as otherwise provided herein, the provisions hereof may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of at least a majority of the aggregate number of the Registrable Securities then outstanding.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this "AGREEMENT") is made effective as of this ____ day of March, 2007 by and among Strativation, Inc., a Delaware corporation ("STRV"), CNS Response, Inc., a California corporation ("CNSR" and collectively, with STRV, the "COMPANY PARTIES") and the undersigned individuals (each an "INDEMNITOR" and together the "INDEMNITORS"). Capitalized terms used and not defined herein have the respective meanings ascribed to them in the Merger Agreement (defined below).

RECITALS

WHEREAS, STRV, CNS Merger Corporation, a California corporation and wholly-owned subsidiary of STRV ("MERGERCO"), and CNSR are parties to that certain Agreement and Plan of Merger dated as of January 16, 2007 (the "MERGER AGREEMENT");

WHEREAS, pursuant to the Merger Agreement, CNSR will merge with and into MergerCo, with CNSR being the surviving corporation and a wholly-owned subsidiary of STRV ("MERGER"); and

WHEREAS, as a condition to closing the transactions contemplated by the Merger Agreement, the Indemnitors desire to jointly and severally indemnify the Company Parties from any and all third party claims or actions brought against any of the Company Parties relating to (i) the issuance of securities by STRV from July 18, 2006, through the date immediately prior to the Closing of the Merger or (ii) the receipt by Richardson & Patel, LLP, of payment pursuant to that certain Financial Advisory Services Agreement between STRV and Richardson & Patel, LLP dated March __, 2007 (the "SERVICES AGREEMENT").

AGREEMENT

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Indemnitors, STRV and CNSR, intending to be legally bound, hereby agree as follows:

1. CERTAIN DEFINITIONS. When used herein, the following terms shall have the following meanings:

"ACTION" means any action, appeal, petition, plea, charge, complaint, claim, suit, derivative suit, demand, litigation, arbitration, mediation, hearing, inquiry, investigation or similar event, occurrence, or proceeding.

"AFFILIATE" or "AFFILIATES" with respect to any specified person, means a person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, such specified person. For this definition, "control" (and its derivatives) means the possession, directly or indirectly, or as trustee or executor, of the power to direct or cause the direction of the management and policies of a person, whether through

ownership of voting equity interests, as trustee or executor, by contract or credit arrangements or otherwise.

"DAMAGES" means all damages, losses (including any diminution in value and the loss of any available tax deduction), liabilities, payments, amounts paid in settlement, obligations, fines, penalties, expenses, costs associated with obtaining injunctive relief, and other costs, including reasonable fees and expenses of attorneys, accountants and other professional advisors, and of expert witnesses and other out-of-pocket costs of investigation, preparation, and litigation in connection with any Action or threatened Action.

"INDEMNIFIED PARTIES" means collectively STRV, CNSR and their respective officers, directors, managers, employees, agents, representatives, and each of STRV's Affiliates and CNSR's Affiliates.

2. INDEMNIFICATION. Indemnitors agree, jointly and severally, to indemnify and hold harmless the Indemnified Parties and each of them harmless against, and pay any and all Damages directly or indirectly resulting from, relating to, arising out of, or attributable to, any Action by a shareholder of the Company existing from July 18, 2006 through the time immediately prior to the closing of the Merger, against an Indemnified Party ("THIRD PARTY CLAIM")

relating to (i) the issuance of securities by STRV from July 18, 2006 through the time immediately prior to the Closing of the Merger; and/or (ii) the receipt by Richardson & Patel, LLP of payments pursuant to the Service Agreement.

3. INDEMNITOR REPRESENTATIVE. The Indemnitors hereby appoint Kevin Leung as their authorized representative (the "INDEMNITOR REPRESENTATIVE"). The Indemnitors may designate a replacement Indemnitor Representative at any time by action of a majority of the Indemnitors which designation shall be made in writing to the Company Parties. The Indemnitor Representative, with full and unqualified power to delegate to one or more persons the authority granted to him hereunder, shall have the authority (a) to receive and to accept on behalf of each Indemnitor any notice from any Indemnified Party given in accordance with the terms of Section 4 hereof (and any notice given to the Indemnitor Representative shall be deemed to have been given to each Indemnitor);(b) to give on behalf of each Indemnitor any notice, representation, demand, or other communication that it may be necessary, desirable, or otherwise appropriate to give to secure and to preserve for each Indemnitor the benefit of any policy or policies of insurance, surety, indemnification, or other reimbursement for any amount for which the Indemnitor may be liable directly or indirectly under this Agreement ("INDEMNIFICATION INSURANCE"); and (c) to cooperate with any and all Indemnified Parties to investigate, negotiate, settle, and compromise any claim of any Indemnified Party asserted under this Agreement, and to execute on behalf of any Indemnitor any agreement, instrument, or other document that, in the sole discretion of the Indemnitor Representative, is necessary, desirable, or otherwise appropriate to effect any such settlement or compromise; provided, however, that the Indemnitor Representative shall have no liability or obligation to any Indemnified Party otherwise than and to the extent of his individual liability as an Indemnitor.

4. INDEMNIFICATION PROCEDURES.

4.1. NOTICE OF THIRD-PARTY CLAIM. If entitled to indemnification hereunder, an Indemnified Party shall, with respect to claims asserted against any such Indemnified Party, give written notice to Indemnitor Representative of any liability which might give rise to a claim for indemnity against the Indemnitors hereunder within thirty (30) days of the receipt of any written claim or notice from any such third party, but no later than twenty (20) days prior to the date any answer, responsive pleading or other response may be due with respect thereto, and with respect to any other matter for which any Indemnified Party may seek indemnification hereunder, the Indemnified Party shall give prompt written notice to the Indemnitor Representative of any liability which might give rise to a claim for indemnity; provided, however that any failure to give such notice will not release the Indemnitors from their obligations hereunder except to the extent that the rights of the Indemnifying Party are materially prejudiced thereby.

4.2. DEFENSE. The Indemnitor Representative, upon receipt of such notice, shall be entitled to participate in or, at the Indemnitor Representative's option, assume, the defense, appeal or settlement of such Third-Party Claim with respect to which such indemnity has been invoked with counsel of the Indemnitor Representatives own choosing (who shall be reasonably satisfactory to the Indemnified Party); provided, however, that if the Indemnitor Representative assumes the defense, appeal or settlement of such Third-Party Claim, the Indemnified Party shall nevertheless be entitled to participate in (but not direct) the defense thereof with counsel of its own choice at its own expense. Any Indemnified Party is hereby authorized prior to the date on which it receives written notice from the Indemnitor Representative that he intends to assume the defense, appeal or settlement of such Third-Party Claim, to file any motion, answer or other pleading and take such other action which such Indemnified Party shall reasonably deem necessary to protect its interest until the date on which the Indemnified Party receives such notice from the Indemnitor Representative.

4.3. SETTLEMENT. No claim or demand may be settled by the Indemnified Party without the consent of the Indemnitor Representative, which consent shall not be unreasonably delayed or withheld. Unless the claim or demand seeks only dollar damages (all of which are to be paid by the Indemnitors) and includes a full release of the Indemnified Parties, no such claim or demand may be settled by the Indemnitor Representative without the consent of the Indemnified Party, which consent shall not be unreasonably delayed or withheld.

4.4. COOPERATION. The parties agree to cooperate in defending such Third-Party Claims and the Indemnified Party shall provide such cooperation and such access to its books, records and properties as the Indemnitor Representative may reasonably request with respect to any matter for which indemnification is sought hereunder, and the parties hereto agree to cooperate with each other in order to insure the proper and adequate defense thereof.

4.5. PAYMENT. With regard to Third-Party Claims for which

indemnification is payable hereunder, indemnification shall be paid by the Indemnitors within five (5) business days following the earlier to occur of: (i) entry of a final non-appealable judgment by a court of competent jurisdiction or arbitration panel against an Indemnified Party which has not been stayed pending appeal; or (ii) a settlement of the claim, in accordance with the terms of such settlement.

5. LIMITATIONS ON INDEMNIFICATION LIABILITY.

5.1. CEILING. The Indemnitors' aggregate liability for Damages under this Agreement will not exceed an amount equal to $1,510,589.

5.2. BASKET/THRESHOLD. The Indemnitors will have no liability for money Damages under this Agreement unless and until the aggregate Damages claimed under SECTION 2 exceeds $25,000 (the "INDEMNIFIED PARTIES THRESHOLD Amount"); provided, however, if the aggregate Damages claimed under SECTION 2 exceeds the Indemnified Parties Threshold Amount, the Indemnitors' liability will relate back to and include the first dollar of aggregate Damages so claimed.

6. PAYMENT OF DAMAGES

Subject to the limitations of SECTION 5, the first $475,000 of Damages payable by Indemnitors to the Indemnified Parties in accordance with this Agreement shall be paid in cash. The balance of any such Damages (the "EXCESS DAMAGES"), shall be satisfied by surrendering for redemption that quantity of shares of STRV common stock (the "STRV COMMON SHARES"), equal in value to such Excess Damages. For purposes of this SECTION 6, the per share value of STRV Common Shares will be $1.35. If this SECTION 6 requires the redemption of STRV Common Shares, STRV shall provide notice to STRV's transfer agent with respect to the STRV Common Shares to be redeemed hereby and provide a copy of such notice to the Indemnitor Representative. Each Indemnitor hereby authorizes such transfer agent to transfer title to such STRV Common Shares on STRV's stock ledger and holds such transfer agent harmless from and indemnifies such transfer agent against any liabilities of the transfer agent arising as a result of such transfer.

7. THIRD PARTY BENEFICIARIES. Indemnitors agrees that each Indemnified Party is a third party beneficiary with respect to each provision of this Agreement applicable to such Indemnified Party and may enforce each of these provisions as if such Indemnified Party was a party to this Agreement.

8. TERM. This Agreement shall have a term of twenty-four (24) months after the date hereof, and upon expiration of this Agreement, the obligations of the parties hereunder shall terminate with respect to any claims asserted against an Indemnified Party with respect to which the Indemnitor has not been provided notice pursuant to SECTION 4.1 hereof.

9. MISCELLANEOUS.

9.1. ENTIRE AGREEMENT. This Agreement contains the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

9.2. GOVERNING LAW; CONSENT TO JURISDICTION. This Agreement and the obligations of the parties hereunder shall be governed by and construed in accordance with the laws of the State of California without giving effect to any choice of law principles that may require the application of any other laws. Each party hereby consents to the non-exclusive jurisdiction of any governmental body, arbitrator, or mediator in which an Action is brought

against any Indemnified Party for purposes of any Indemnification Claim that an Indemnified Party may have under this Agreement with respect to such Action or the matters alleged therein.

9.3. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.4. AMENDMENTS AND WAIVERS. No amendment, modification, waiver, replacement, termination, or cancellation of any provision of this Agreement shall be valid, unless the same shall be in writing and signed by all of the parties to this Agreement.

9.5. SEVERABILITY. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Indemnitors shall nevertheless jointly and severally, indemnify the

Indemnified Parties to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

9.6. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the Indemnitors and its successors and assigns, and shall inure to the benefit of the Indemnified Parties and their respective estate, heirs, legal representatives and assigns.

9.7. ATTORNEYS' FEES. In the event that any Action is instituted by an Indemnified Party under this Agreement to enforce or interpret any of the terms hereof, the Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by the Indemnified Party with respect to such Action.

9.8. NOTICE. All notices, requests, demands, claims, and other communications hereunder shall be in writing, addressed to the intended recipient as set forth below, and shall be deemed to have been duly given when actually received or refused by the intended recipient:

If to Indemnitors:

Richardson & Patel, LLP
10900 Wilshire Blvd., Suite 500
Los Angeles, CA 90024
Attn: Kevin Leung, Indemnitor Representative
Fax: (310) 208-1154

If to any Indemnified Party:

CNS Response, Inc.
2755 Bristol Street
Costa Mesa, CA 92626
Attention: Leonard Brandt, CEO
Fax: (949) 248-5449

with a copy to (which shall not constitute notice):

Stubbs Alderton & Markiles, LLP
15260 Ventura Blvd., 20th Floor
Sherman Oaks, CA 91403
Attn: Scott Alderton, Esq.
Fax: (818) 474-8601

Any party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any means (including personal delivery, expedited courier, messenger service, registered or certified mail, return receipt requested and postage prepaid). Any party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other parties notice in the manner herein set forth.

[SIGNATURE PAGE FOLLOWS]

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

CNS RESPONSE, INC.

By: _____
Name: Leonard J. Brandt
Title: Chief Executive Officer

STRATIVATION, INC.

By: _____
Name: Silas Phillips

Title: Chief Executive Officer

[INDEMNITORS SIGNATURE PAGE FOLLOWS]

INDEMNITOR:

Name

Signature

Date

Address: ---

[INDEMNITORS' SIGNATURE PAGE
TO INDEMNIFICATION AGREEMENT]

EXHIBIT 10.6

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "AGREEMENT") is made and entered into as of the ___ day of _____, 2007, by and among, Strativation, Inc., a Delaware corporation ("STRV" or, the "Company"), and those stockholders of the Company set forth on the signature pages to this Agreement (the "STOCKHOLDERS").

W I T N E S S E T H:

WHEREAS, the Company and certain Stockholders are parties to that certain Amended and Restated Registration Rights Agreement dated January 16, 2007 (the "REGISTRATION RIGHTS AGREEMENT") pursuant to which such Stockholders were given registration rights with respect to their shares of STRV Common Stock;

WHEREAS, the Company has entered into an Agreement and Plan of Merger (the "MERGER AGREEMENT") with CNS Response, Inc. ("CNSR") and CNS Merger Corporation, a wholly-owned subsidiary of STRV ("MergerCo"), pursuant to which MergerCo will be merged with and into CNSR, resulting in CNSR becoming a direct wholly-owned subsidiary of STRV (the "MERGER"), and pursuant to which the capital stock of CNSR will be converted into the common stock of STRV (the "COMMON STOCK");

WHEREAS, in connection with the Merger, and as a condition thereto, the Company is required to raise a minimum of $7,005,000 in proceeds in a private placement offering (the "OFFERING") of Investment Units consisting of consisting of (i) one (1) share of the Company's common stock, par value $.001 per share ("COMMON STOCK"), and (ii) three-tenths (3/10) of a five (5) year warrant to purchase one (1) share of the Company's Common Stock at an initial exercise price of $1.80 per share (the "WARRANTS" and the Common Stock issuable upon the exercise of the Warrants the "WARRANT SHARES").

WHEREAS, it is a condition of the Merger Agreement that the Stockholders terminate the registration rights provided by the Registration Rights Agreement and enter into a new registration rights agreement in the form hereof.

NOW THEREFORE, in consideration of the premises and the mutual promises herein made, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

1. TERMINATION OF REGISTRATION RIGHTS AGREEMENT. Effective upon the consummation of the Merger (the "EFFECTIVE DATE"), and without necessity of any further action or approval by STRV or the Stockholders, the Registration Rights Agreement shall be terminated, and neither STRV nor the Stockholders shall have any further rights, obligations or liabilities of any nature whatsoever pursuant to, or arising out of, the Registration Rights Agreement. STRV and the Stockholders party to the Registration Rights Agreement each represent and warrant that they have full power and authority to terminate the Registration Rights Agreement.

2. REGISTRATION RIGHTS

Effective as of the Effective Date, the Company hereby grants to the Stockholders the following registration rights.

A. DEFINITIONS. As used in this SECTION 2, the following terms shall have the following respective meanings:

BUSINESS DAY: Any day other than a day on which banks are authorized or required to be closed in the State of New York.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

PERSON: Any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

PROSPECTUS: The prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the

Registrable Securities covered by such Registration Statement, and all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

REGISTRABLE SECURITIES: Each issued and outstanding share of Common Stock (i) held as of the Effective Date by the Stockholders and identified in the Schedule of Stockholders in the APPENDIX hereto, until such time as such shares (a) have been sold pursuant to, or are subject to, an effective registration statement under the Act, (b) have been sold pursuant to Rule 144, or (b) may be sold without any time, volume or manner limitations pursuant to section (k) of Rule 144.

REGISTRATION STATEMENT: Any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statements, including post effective amendments, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

RULE 144: Rule 144 promulgated by the SEC pursuant to the Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

SEC: The United States Securities and Exchange Commission.

TRADING DAY: A day on whichever (a) the national securities exchange, (b) the Nasdaq Stock Market, or (c) such other securities market, in any such case which at the time constitutes the principal securities market for the Common Stock, is open for general trading of securities.

B. AUTOMATIC REGISTRATION RIGHT. Within 45 days following the Effective Date (the "FILING Deadline"), the Company shall prepare and file with the SEC a registration statement on Form SB-2 or other appropriate registration document under the Act relating to the resale by the holders of the Registrable Securities held by all holders, and all of the shares of Common Stock, and Warrant Shares issued in the Offering (the "INITIAL REGISTRATION SHARES"). The Company shall use commercially reasonable efforts to ensure that such Registration Statement (the "INITIAL REGISTRATION STATEMENT") is declared effective within 150 days of the Initial Closing Date (the "EFFECTIVENESS DEADLINE"). The Company will agree to take all actions as are necessary to keep the Initial Registration Statement effective until the date on which all securities registered thereunder may be sold without any restriction, under Rule 144 during any 90-day period in accordance with all rules and regulations regarding sales of securities pursuant to Rule 144 (the "EFFECTIVENESS PERIOD").

C. DEMAND REGISTRATION RIGHT. If the Company receives at any time after the date that is twelve (12) months from the Effective Date, a written request (a "DEMAND REQUEST") from the Stockholders of a majority of the outstanding Registrable Securities issued and outstanding at the time of such Demand Request (the "MAJORITY STOCKHOLDERS") who hold not less than 275,000 shares of Registrable Securities at the time of such Demand Request, that the Company register any such Registrable Securities, then the Company shall, within ten (10) days after receipt of such Demand Request, give written notice of such request ("DEMAND REQUEST NOTICE") to all holders of Registrable Securities. Each Demand Request Notice shall (x) specify the number of Registrable Securities that the Majority Stockholders intend to sell or dispose of, (y) state the intended method or methods of sale or disposition of such Registrable Securities and, if applicable, (z) specify the expected price range (net of underwriting discounts and commissions) acceptable to the Majority Stockholders to be received for such Registrable Securities. Unless the Registration Statement covers an underwritten offering, the Company will agree to take all actions as are necessary to keep any Registration Statement filed pursuant to this Section 2.C. effective until the date on which all Registrable Securities thereunder may be sold without any restriction, under Rule 144 during any 90-day period in accordance with all rules and regulations regarding sales of securities pursuant to Rule 144. Each Stockholder shall respond promptly and accurately to Company's request at reasonable intervals regarding the amount of Registrable Securities and any other securities of the Company then held by such Stockholder.

The Company shall file, no later than forty-five (45) days

following receipt of a Demand Request (the "DEMAND FILING DATE"), a Registration Statement (the "DEMAND REGISTRATION Statement") covering such Registrable Securities which the Company has been so requested to register by the Majority Stockholders and any other holders of Registrable Securities who request, within fifteen (15) days of the mailing of the Demand Request Notice, that the Company register their Registrable Securities, providing for the registration under the Securities Act of such Registrable Securities to the extent necessary to permit the disposition of such Registrable Securities in accordance with the intended method of distribution specified in such Demand Request, and use its commercially reasonable efforts to have such Demand Registration Statement declared effective by the SEC within one hundred fifty (150) days after the Demand Filing Date. If a registration pursuant to this SECTION 2.C. involves an underwritten public offering, any Stockholder requesting to be included in such registration may elect, in writing prior to the effective date of the Registration Statement filed in connection with such registration, not to register such securities in connection with such registration.

The Company may delay making a filing of a Demand Registration Statement in connection with a Demand Request or taking action in connection therewith by not more than ninety (90) days if the Company provides a written certificate signed by the Chief Executive Officer and Chief Financial Officer of the Company to the Stockholders, prior to the time it would otherwise have been required to file such Demand Registration Statement or take such action pursuant to this SECTION 2.C., stating that the Board has determined in good faith that the filing of such Demand Registration Statement would be seriously detrimental to the Company or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction (collectively, a "VALID BUSINESS REASON") and that it is therefore essential to defer the filing of the Demand Registration Statement; provided, however, that such right to delay a Demand Request shall be exercised by the Company not more than once in any twelve (12)-month period and the Company shall only have the right to delay a Demand Request so long as such Valid Business Reason exists, and during such time, the Company may not file a registration statement for securities to be issued and sold for its own account or for that of anyone other than the Stockholders.

The Company shall only be obligated to effect one (1) Demand Request pursuant to this SECTION 2.C.

The Majority Stockholders shall have the right to cancel a proposed registration of Registrable Securities pursuant to this SECTION 2.C. when the request for cancellation is based upon material adverse information relating to the Company that is different from the information known to the Majority Stockholders at the time of the Demand Request. Such cancellation of a registration shall be made in writing and shall not be counted as a Demand Request.

D. PIGGYBACK REGISTRATION. If, at any time after the date that is six (6) months from the Effective Date, the Company proposes to register any of its securities under the Securities Act for sale to the public for its own account or for the account of other security holders of the Company (except with respect to the Initial Registration Statement, or registration statements on Forms S-4 or S-8 or another form not available for registering the Registrable Securities for sale to the public), each such time it will give written notice thereof to the Stockholders of its intention so to do (such notice to be given at least fifteen (15) days prior to the filing thereof). Upon the written request of any such Stockholder (which request shall specify the number of Registrable Securities intended to be disposed of by such Stockholder and the intended method of disposition thereof), received by the Company within ten (10) days after giving of any such notice by the Company, to register any of such Stockholder's Registrable Securities, the Company will use its commercially reasonable efforts to cause the Registrable Securities as to which registration shall have been so requested to be included in the securities to be covered by the Registration Statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the Stockholder (in accordance with its written request) of such Registrable Securities so registered ("PIGGYBACK REGISTRATION RIGHTS"); provided, that if, at any time after giving written notice of its intention to register any securities pursuant to this SECTION 2.D. and prior to the effective date of the Registration Statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company shall give written notice to all Stockholders and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration. If a registration pursuant to this SECTION 2.D. involves an underwritten public offering, any Stockholder requesting to be included in such registration may elect, in writing prior to the effective date of the registration statement filed in connection with such registration, not to register such securities in connection with such registration. The foregoing provisions notwithstanding, the Company may withdraw any registration statement referred to in this SECTION 2.D. without thereby incurring any liability to the Stockholders.

E. UNDERWRITING. If a Registration Statement is for a registered public offering involving an underwriting, the Company shall so advise the Stockholder(s) in writing or as a part of the written notice given pursuant to SECTION 2.C or 2.D, as applicable. In such event the right of any Stockholder to registration pursuant to SECTION 2.C. and/or 2.D shall be conditioned upon such Stockholder's participation in such underwriting and the inclusion of such Stockholder's Registrable Securities in the underwriting to the extent provided herein. All Stockholders proposing to distribute their securities through such underwriting shall (together with the Company and any other stockholders of the Company distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company or selling stockholders, as applicable. Notwithstanding any other provision of this SECTION 2, if the underwriter or the Company determines that marketing factors require a limitation of the number of shares to be underwritten, the underwriter may exclude some or all Registrable Securities from such registration and underwriting. The Company shall so advise all Stockholders (except those Stockholders who failed to timely elect to distribute their Registrable

Securities through such underwriting or have indicated to the Company their decision not to do so), and the number of shares of Registrable Securities that may be included in the registration and underwriting, if any, shall be allocated among such Stockholders as follows:

(i) In the event of a registration that is initiated by the exercise of demand registration rights by the Majority Stockholders, then the number of shares that may be included in the registration and underwriting shall be allocated on a pro rata basis according to the number of shares requested to be included by all Stockholders;

(ii) In the event of a registration that is initiated by the Company, the number of shares that may be included in the registration and underwriting shall be allocated first to the Company and then, subject to obligations and commitments existing as of the date hereof, to all selling stockholders, including the Stockholder(s), who have requested to sell in the registration on a pro rata basis according to the number of shares requested to be included; and

(iii) In the event of a registration that is initiated by the exercise of demand registration rights by a stockholder or stockholders of the Company (other than the Stockholder(s)), then the number of shares that may be included in the registration and underwriting shall be allocated first to such selling stockholders who exercised such demand and then, subject to obligations and commitments existing as of the date hereof, to all other selling stockholders, including the Stockholder(s), who have requested to sell in the registration, on a pro rata basis according to the number of shares requested to be included.

No Registrable Securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. If any Stockholder disapproves of the terms of any such underwriting, such Stockholder may elect to withdraw therefrom by written notice to the Company and the underwriter. The Registrable Securities and/or other securities so withdrawn from such underwriting shall also be withdrawn from such registration; PROVIDED, HOWEVER, that, if by the withdrawal of such Registrable Securities a greater number of Registrable Securities held by other Stockholders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Stockholders who have included Registrable Securities in the registration the right to include additional Registrable Securities pursuant to the terms and limitations set forth herein in the same proportion used above in determining the underwriter limitation.

F. REGISTRATION PROCEDURES. In connection with the registration obligations of the Company pursuant to the terms and conditions of this Agreement, the Company shall:

(i) Prepare and file with the SEC such amendments and supplements to all Registration Statements and each related Prospectus as may be necessary to comply with the provisions of the Act with respect to the disposition of securities covered by such Registration Statements;

(ii) Respond as promptly as reasonably practicable to any comments received from the SEC with respect to a Registration Statement or any amendment thereto.

(iii) Notify the Stockholders as promptly as reasonably practicable and (if requested by any such person) confirm such notice in writing no later than one trading day following the day (A) when a Prospectus or any Prospectus supplement or post-effective amendment to a Registration Statement is proposed to be filed and (B) with respect to a Registration Statement or any post-effective amendment, when the same has become effective;

(iv) Furnish such number of Prospectuses and other documents incident thereto, including supplements and amendments, as the Stockholder may reasonably request;

(v) Furnish to the Stockholder, upon request, a copy of all documents filed with and all correspondence from or to the SEC in connection with any such registration statement other than non-substantive cover letters and the like;

(vi) Use its reasonable best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a registration statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment; and

(vii) Use its reasonable best efforts to comply with all applicable rules and regulations of the SEC.

Notwithstanding the foregoing, if at any time or from time to time after the date hereof, the Company notifies a Stockholder whose shares are registered on a Registration Statement (a "SELLING STOCKHOLDER") in writing of the existence of an event or circumstance that is not disclosed in such Registration Statement and that may have a material effect on the Company or its business (a "POTENTIAL MATERIAL Event"), the Selling Stockholder shall not offer or sell any Registrable Securities, or engage in any other transaction involving or relating to the Registrable Securities, from the time of the giving of notice with respect to a Potential Material Event until the Company notifies the Selling Stockholder that such Potential Material Event either has been added to the Registration Statement by amendment or supplement or no longer constitutes a Potential Material Event; PROVIDED, that the Company may not so suspend the right of a Selling Stockholder for more than One-Hundred Twenty (120) days during any twelve (12) month period.

G. REGISTRATION EXPENSES.

(i) All expenses incident to the Company's performance of, or compliance with, the provisions hereof, including without limitation, all SEC and securities exchange or NASD registration and filing fees, fees and expenses of

compliance with securities or "blue sky" laws (including fees and disbursements of counsel in connection with "blue sky" qualifications of the Registrable Securities), printing expenses, messenger and delivery expenses, internal expenses (including, without limitation, all salaries and expenses of the Company's officers and employees performing legal or accounting duties), fees and expenses incurred in connection with the listing of the securities to be registered, if any, on each securities exchange on which similar securities issued by the Company are then listed, fees and disbursements of counsel for the Company and its independent certified public accountants (including the expense of any special audit or "cold comfort" letters required by, or incident to, such performance), Securities Act liability insurance (if the Company elects to obtain such insurance), reasonable fees and expenses of any special experts retained by the Company in connection with such registration, fees and expenses of other Persons retained by the Company in connection with each registration hereunder (but not including the fees and expense of legal counsel retained by a Stockholder or Stockholders, or any underwriting fees, discounts or commissions attributable to the sale of Registrable Securities) are herein called "Registration Expenses."

(ii) The Company will pay all Registration Expenses in connection with each Registration Statement filed pursuant to SECTION 2 except as otherwise set forth therein. All expenses to be borne by the Stockholders in connection with any Registration Statement filed pursuant to SECTION 2 (including, without limitation, all underwriting fees, discounts or commissions attributable to such sale of Registrable Securities) shall be borne by the participating Stockholders pro rata in relation to the number of Registrable Securities to be registered by each Stockholder.

H. INDEMNIFICATION; CONTRIBUTION.

(i) INDEMNIFICATION BY THE COMPANY. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each Stockholder, its officers, directors and each Person who controls such

Stockholder (within the meaning of the Securities Act), and any agent or investment adviser thereof, against all losses, claims, damages, liabilities and expenses (including reasonable attorneys' fees and costs of investigation) arising out of or based upon any untrue or alleged untrue statement of material fact contained in any Registration Statement, any amendment or supplement thereto, any Prospectus or preliminary Prospectus or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as the same arise out of or are based upon any such untrue statement or omission based upon information with respect to such Stockholder furnished in writing to the Company by or on behalf of such Stockholder expressly for use therein; PROVIDED that, in the event that the Prospectus shall have been amended or supplemented and copies thereof as so amended or supplemented, shall have been furnished to a Stockholder prior to the confirmation of any sales of Registrable Securities, such indemnity with respect to the Prospectus shall not inure to the benefit of such Stockholder if the Person asserting such loss, claim, damage or liability and who purchased the Registrable Securities from such Stockholder did not, at or prior to the confirmation of the sale of the Registrable Securities to such Person, receive a copy of the Prospectus as so amended or supplemented and the untrue statement or omission of a material fact contained in the Prospectus was corrected in the Prospectus as so amended or supplemented.

(ii) INDEMNIFICATION BY STOCKHOLDERS OF REGISTRABLE SECURITIES. In connection with any Registration Statement in which a Stockholder is participating, each such Stockholder will furnish to the Company in writing such information with respect to the name and address of such Stockholder and such other information as may be reasonably required for use in connection with any such Registration Statement or Prospectus and agrees to indemnify, to the full extent permitted by law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue statement of a material fact in the Registration Statement or Prospectus or any amendment thereof or supplement thereto or necessary to make the statements therein not misleading, to the extent, but only to the extent, that such untrue or alleged untrue statement relates to any information with respect to such Stockholder so furnished in writing by such Stockholder specifically for inclusion in any Prospectus or Registration Statement; PROVIDED, HOWEVER, that such Stockholder shall not be liable in any such case to the extent that prior to the filing of any such Registration Statement or Prospectus or amendment thereof or supplement thereto, such Stockholder has furnished in writing to the Company information expressly for use in such Registration Statement or Prospectus or any amendment thereof or supplement thereto which corrected or made not misleading information previously furnished to the Company. In no event shall the liability of any Selling Stockholder hereunder be greater in amount than the dollar amount of the net proceeds received by such Selling Stockholder upon the sale of the Registrable Securities, sold under such Registration Statement or Prospectus as contemplated herein, giving rise to such indemnification obligation.

(iii) CONDUCT OF INDEMNIFICATION PROCEEDINGS. Any Person entitled to indemnification hereunder agrees to give prompt written notice to the indemnifying party after the receipt by such Person of any written notice of the commencement of any action, suit, proceeding or investigation or threat thereof made in writing for which such Person will claim indemnification or contribution pursuant to the provisions hereof and, unless in the judgment of counsel of such indemnified party a conflict of interest may exist between such indemnified party and the indemnifying party with respect to such claim, permit the indemnifying party to assume the defense of such claim. Whether or not such defense is assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation. If the indemnifying party is not entitled to, or elects not to, assume the defense of a claim, it will not be obligated to pay the fees and expenses of more than one counsel (plus such local counsel, if any, as may be reasonably required in other jurisdictions) with respect to such claim, unless in the judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim, in which event the indemnifying party shall be obligated to pay the

fees and expenses of such additional counsel or counsels. For the purposes of this Section 5(c), the term "conflict of interest" shall mean that there are one or more legal defenses available to the indemnified party that are different from or additional to those available to the indemnifying party or such other

indemnified parties, as applicable, which different or additional defenses make joint representation inappropriate.

(iv) CONTRIBUTION. If the indemnification from the indemnifying party provided for in this SECTION 2.H. is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any reasonable legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(v) If indemnification is available under this Section 2.H., the indemnifying parties shall indemnity each indemnified party to the full extent provided in SECTIONS 2.H.(I) and 2.H.(II) without regard to the relative fault of said indemnifying party or indemnified party or any other equitable consideration provided for in this SECTION 2.

I. LIMITATION TO REGISTRATION REQUIREMENT. Notwithstanding anything else herein to the contrary, the Company shall not be obligated to effect any registration of the Registrable Securities or take any other action (i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Exchange Act, or (ii) during any period in which the Company suspends the rights of a subscriber after giving the Subscriber written notification of a Material Event.

J. TRANSFER OF RIGHTS. The rights to cause the Company to register Registrable Securities granted pursuant to the provisions hereof may be transferred or assigned by any Stockholder to a transferee or assignee; PROVIDED; HOWEVER, that the transferee or assignee of such rights assumes the obligations of such transferor or assignor, as the case may be, hereunder.

K. INFORMATION BY STOCKHOLDER. The Stockholder or holders of Registrable Securities included in any Registration Statement shall furnish to the Company such information regarding such Stockholder or Stockholders and the distribution of securities by such Stockholder or Stockholders as the Company may request in writing.

L. COMPLIANCE. Holder covenants and agrees that such Stockholder will comply with the prospectus delivery requirements of the Act as applicable to such Stockholder in connection with sales of Registrable Securities pursuant to the Registration Statements required hereunder.

3. AMENDMENT. Except as otherwise provided herein, the provisions hereof may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of holders of at least a majority of the aggregate number of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this SECTION 3 shall be binding upon each Holder that is a party to this Agreement, and each future holder of Registrable Securities and the Company.

4. SUCCESSORS AND ASSIGNS. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

5. GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of California, irrespective of its choice of law principles.

6. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7. TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

8. NOTICES. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or, if sent by telex, telecopier or e-mail transmission, upon receipt of the correct answer back, or upon deposit with the United States Post Office, by registered or certified mail, or upon deposit with an overnight air courier, in each case postage prepaid and addressed to the party to be notified at the address indicated for such party in the records of the Company, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

9. SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

10. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, term sheets, letters, discussions and understandings of the parties in connection therewith.

11. FURTHER ASSURANCES. Each party to this Agreement shall execute all instruments and documents and take all actions as may be reasonably required to effectuate this Agreement, whether before, concurrently with or after the consummation of the transactions contemplated hereby.

[SIGNATURE PAGE FOLLOWS]

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

CNSR : CNS RESPONSE, INC.

By: _____

Name: Leonard J. Brandt
Title: President and Chief Executive Officer

STRV : STRATIVATION, INC.

By: _____

Name: Leonard J. Brandt
Title: President and Chief Executive Officer

STOCKHOLDERS:

Name of Stockholder (please print)

Name of Authorized Representative (if applicable)

Title (if applicable)

Signature

[SIGNATURE PAGE TO STRATIVATION, INC.
REGISTRATION RIGHTS AGREEMENT]

APPENDIX
to
STRATIVATION, INC.'S
REGISTRATION RIGHTS AGREEMENT

SCHEDULE OF STOCKHOLDERS

NAME OF STOCKHOLDER:	SHARES
Mark Abdou	31,219
Addison Adams	31,219
Corporate Capital Partners	35,679
Kevin Friedmann	26,759
Victor Fu	26,759
Peter Hogan	8,920
Ryan Hong	44,599
Lisa Klein	26,759
Kevin Leung	35,679
Albert Liou	44,599
A&E Capital Partners, LLC	44,599
Nimish Patel	133,797
Luan Phan	44,599
Silas Phillips	44,599
Erick E. Richardson	133,797
Troy Rillo	44,599
John Tishbi	8,920
TOTAL:	767,103

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "AGREEMENT") is made and entered into as of the ___ day of _____, 2007, by and among CNS Response, Inc., a California corporation ("CNSR"), Stratvation, Inc., a Delaware corporation ("STRV" or, the "COMPANY"), and those stockholders of the Company set forth on the signatures pages to this Agreement (the "STOCKHOLDERS").

W I T N E S S E T H:

WHEREAS, CNSR and certain Stockholders are parties to that certain Investor Rights Agreement dated October 6, 2006 (the "INVESTOR RIGHTS AGREEMENT") pursuant to which such Stockholders were given registration rights with respect to their shares of CNSR Series A-1, Series A-2 and/or Series B Preferred Stock;

WHEREAS, the Company and certain other Stockholders are parties to certain Settlement Agreements, and amendments thereto (the "SETTLEMENT AGREEMENTS") pursuant to which such Stockholders were given registration rights with respect to certain of their shares of CNSR Common Stock;

WHEREAS, the Company has entered into an Agreement and Plan of Merger (the "MERGER AGREEMENT") with STRV and CNS Merger Corporation, a wholly-owned subsidiary of STRV ("MERGERCO"), pursuant to which MergerCo will be merged with and into CNSR, resulting in CNSR becoming a direct wholly-owned subsidiary of STRV (the "MERGER"), and pursuant to which the capital stock of CNSR will be converted into the common stock of STRV (the "COMMON STOCK");

WHEREAS, it is a condition of the Merger Agreement that the Stockholders terminate the registration rights included in the Investor Rights Agreement and Settlement Agreements and enter into a new Registration Rights Agreement in the form hereof.

NOW THEREFORE, in consideration of the premises and the mutual promises herein made, and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

1. TERMINATION OF INVESTOR RIGHTS AGREEMENT. Effective upon the consummation of the Merger (the "EFFECTIVE DATE"), and without necessity of any further action or approval by CNSR or the Stockholders, the Investor Rights Agreement shall be terminated, and neither CNSR nor the Stockholders shall have any further rights, obligations or liabilities of any nature whatsoever pursuant to, or arising out of, the Investor Rights Agreement. CNSR and the Stockholders party to the Investor Rights Agreement each represent and warrant that they have full power and authority to terminate the Investor Rights Agreement.

2. SETTLEMENT AGREEMENTS. Effective on the Effective Date, and without necessity of any further action or approval by CNSR or the Stockholders, the obligations

of CNST and Stockholders arising under SECTION 6 of each Stockholder's respective Settlement Agreement, as applicable, shall be terminated, and neither CNSR nor the Stockholders shall have any further rights, obligations or liabilities of any nature whatsoever pursuant to, or arising out of, SECTION 6 of each Stockholder's respective Settlement Agreement. CNSR and the Stockholders party to each Settlement Agreement each represent and warrant that they have full power and authority to terminate the rights under SECTION 6 of each Stockholder's respective Settlement Agreement.

3. REGISTRATION RIGHTS

Effective as of the Effective Date, the Company hereby grants to the Stockholders the following registration rights.

A. DEFINITIONS. As used in this SECTION 3, the following terms shall have the following respective meanings:

BUSINESS DAY: Any day other than a day on which banks are authorized or required to be closed in the State of New York.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

PERSON: Any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

PROSPECTUS: The prospectus included in any Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, and all other amendments and supplements to the prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

REGISTRABLE SECURITIES: Each issued and outstanding share of Common Stock (i) held as of the Effective Date by the Stockholders and identified on EXHIBIT A hereto, and (ii) issuable upon exercise of the warrants held as of the date of this Agreement by the Stockholders and identified on EXHIBIT A hereto, until such time as such shares (a) have been sold pursuant to, or are subject to, an effective registration statement under the Act, (b) have been sold pursuant to Rule 144, or (b) may be sold without any time, volume or manner limitations pursuant to section (k) of Rule 144.

REGISTRATION STATEMENT: Any registration statement of the Company that covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statements, including post effective amendments, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

RULE 144: Rule 144 promulgated by the Commission pursuant to the Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC having substantially the same effect as such Rule.

SEC: The United States Securities and Exchange Commission.

TRADING DAY: A day on whichever (a) the national securities exchange, (b) the Nasdaq Stock Market, or (c) such other securities market, in any such case which at the time constitutes the principal securities market for the Common Stock, is open for general trading of securities.

B. DEMAND REGISTRATION RIGHT. If the Company receives at any time after the date that is twelve (12) months from the Effective Date, a written request (a "DEMAND REQUEST") from the Stockholders of a majority of the outstanding Registrable Securities issued and outstanding at the time of such Demand Request (the "MAJORITY STOCKHOLDERS") who hold not less than 275,000 Registrable Securities at the time of such Demand Request, that the Company register any such Registrable Securities, then the Company shall, within ten (10) days after receipt of such Demand Request, give written notice of such request ("DEMAND REQUEST NOTICE") to all Stockholders of Registrable Securities. Each Demand Request Notice shall (x) specify the number of Registrable Securities that the Majority Stockholders intend to sell or dispose of, (y) state the intended method or methods of sale or disposition of such Registrable Securities and, if applicable, (z) specify the expected price range (net of underwriting discounts and commissions) acceptable to the Majority Stockholders to be received for such Registrable Securities. Unless the Registration Statement covers an underwritten offering, the Company will agree to take all actions as are necessary to keep any Registration Statement filed pursuant to this Section 2(b) effective until the date on which all Registrable Securities thereunder may be sold without any restriction, under Rule 144 during any 90-day period in accordance with all rules and regulations regarding sales of securities pursuant to Rule 144. Each Stockholder shall respond promptly and accurately to Company's request at reasonable intervals regarding the amount of Registrable Securities and any other securities of the Company then held by such Subscriber or Stockholder.

The Company shall file, no later than forty-five (45) days following receipt of a Demand Request (the "DEMAND FILING DATE"), a Registration Statement (the "DEMAND REGISTRATION Statement") covering such Registrable Securities which the Company has been so requested to register by the Majority Stockholders and any other Stockholders of Registrable Securities who request, within fifteen (15) days of the

mailing of the Demand Request Notice, that the Company register their Registrable Securities, providing for the registration under the Securities Act of such Registrable Securities to the extent necessary to permit the disposition of such Registrable Securities in accordance with the intended method of distribution specified in such Demand Request, and use its commercially reasonable efforts to have such Demand Registration Statement declared effective by the SEC within one hundred fifty (150) days after the Demand Filing Date. If a registration pursuant to this Section 3.B. involves an underwritten public offering, any Stockholder requesting to be included in such registration may elect, in writing prior to the effective date of the Registration Statement filed in connection with such registration, not to register such securities in connection with such registration.

The Company may delay making a filing of a Demand Registration Statement in connection with a Demand Request or taking action in connection therewith by not more than ninety (90) days if the Company provides a written certificate signed by the Chief Executive Officer and Chief Financial Officer of the Company to the Stockholders, prior to the time it would otherwise have been required to file such Demand Registration Statement or take such action pursuant to this SECTION 3.B., stating that the Board has determined in good faith that the filing of such Demand Registration Statement would be seriously detrimental to the Company or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction (collectively, a "VALID BUSINESS REASON") and that it is therefore essential to defer the filing of the Demand Registration Statement; provided, however, that such right to delay a Demand Request shall be exercised by the Company not more than once in any twelve (12)-month period and the Company shall only have the right to delay a Demand Request so long as such Valid Business Reason exists, and during such time, the Company may not file a registration statement for securities to be issued and sold for its own account or for that of anyone other than the Stockholders.

The Company shall only be obligated to effect one (1) Demand Request pursuant to this SECTION 3.B.

The Majority Stockholders shall have the right to cancel a proposed registration of Registrable Securities pursuant to this SECTION 3.B when the request for cancellation is based upon material adverse information relating to the Company that is different from the information known to the Majority Stockholders at the time of the Demand Request. Such cancellation of a registration shall be made in writing and shall not be counted as a Demand Request.

C. PIGGYBACK REGISTRATION. If, at any time after the date that is six (6) months from the Effective Date, the Company proposes to register any of its securities under the Securities Act for sale to the public for its own account or for the account of other security Stockholders (except with respect to the Initial Registration Statement, or registration statements on Forms S-4 or S-8 or another form not available for registering the Registrable Securities for sale to the public), each such time it will give written notice thereof to Stockholders of its intention so to do (such notice to be given at least fifteen (15) days prior to the filing thereof). Upon the written request of any such

Stockholder (which request shall specify the number of Registrable Securities intended to be disposed of by such Stockholder and the intended method of disposition thereof), received by the Company within ten (10) days after giving of any such notice by the Company, to register any of such Stockholder's Registrable Securities, the Company will use its commercially reasonable efforts to cause the Registrable Securities as to which registration shall have been so requested to be included in the securities to be covered by the Registration Statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the Stockholder (in accordance with its written request) of such Registrable Securities so registered ("PIGGYBACK REGISTRATION RIGHTS"); PROVIDED, that if, at any time after giving written notice of its intention to register any securities pursuant to this SECTION 3.C and prior to the effective date of the Registration Statement filed in connection with such registration, the Company shall determine for any reason not to register such securities, the Company shall give written notice to all Stockholders and, thereupon, shall be relieved of its obligation to register any Registrable Securities in connection with such registration. If a registration pursuant to this Section 2(c) involves an underwritten public offering, any Stockholder requesting to be included in such registration may elect, in writing prior to the effective date of the registration statement filed in connection with such registration, not to register such securities in connection with such registration. The foregoing provisions notwithstanding, the Company may withdraw any registration statement referred to in this SECTION 3.C without thereby incurring any liability to the Stockholders.

D. UNDERWRITING. If a Registration Statement is for a registered public offering involving an underwriting, the Company shall so

advise the Stockholder(s) in writing or as a part of the written notice given pursuant to SECTION 3.B or 3.C, as applicable. In such event the right of any Stockholder to registration pursuant to SECTION 3.B and/or 3.C shall be conditioned upon such Stockholder's participation in such underwriting and the inclusion of such Stockholder's Registrable Securities in the underwriting to the extent provided herein. All Stockholders proposing to distribute their securities through such underwriting shall (together with the Company and any other stockholders of the Company distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company or selling stockholders, as applicable. Notwithstanding any other provision of this SECTION 3, if the underwriter or the Company determines that marketing factors require a limitation of the number of shares to be underwritten, the underwriter may exclude some or all Registrable Securities from such registration and underwriting. The Company shall so advise all Stockholders (except those Stockholders who failed to timely elect to distribute their Registrable Securities through such underwriting or have indicated to the Company their decision not to do so), and the number of shares of Registrable Securities that may be included in the registration and underwriting, if any, shall be allocated among such Stockholders as follows:

(i) In the event of a registration that is initiated by the exercise of demand registration rights by the Majority Stockholders, then the number of shares that may be included in the registration and underwriting shall be allocated on a pro rata basis according to the number of shares requested to be included by all Stockholders;

(ii) In the event of a registration that is initiated by the Company, the number of shares that may be included in the registration and underwriting shall be allocated first to the Company and then, subject to obligations and commitments existing as of the date hereof, to all selling stockholders, including the Stockholder(s), who have requested to sell in the registration on a pro rata basis according to the number of shares requested to be included; and

(iii) In the event of a registration that is initiated by the exercise of demand registration rights by a stockholder or stockholders of the Company (other than the Stockholder(s)), then the number of shares that may be included in the registration and underwriting shall be allocated first to such selling stockholders who exercised such demand and then, subject to obligations and commitments existing as of the date hereof, to all other selling stockholders, including the Stockholder(s), who have requested to sell in the registration, on a pro rata basis according to the number of shares requested to be included.

No Registrable Securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. If any Stockholder disapproves of the terms of any such underwriting, such Stockholder may elect to withdraw therefrom by written notice to the Company and the underwriter. The Registrable Securities and/or other securities so withdrawn from such underwriting shall also be withdrawn from such registration; PROVIDED, HOWEVER, that, if by the withdrawal of such Registrable Securities a greater number of Registrable Securities held by other Stockholders may be included in such registration (up to the maximum of any limitation imposed by the underwriters), then the Company shall offer to all Stockholders who have included Registrable Securities in the registration the right to include additional Registrable Securities pursuant to the terms and limitations set forth herein in the same proportion used above in determining the underwriter limitation.

E. REGISTRATION PROCEDURES. In connection with the registration obligations of the Company pursuant to the terms and conditions of this Agreement, the Company shall:

(i) Prepare and file with the SEC such amendments and supplements to all Registration Statements and each related Prospectus as may be necessary to comply with the provisions of the Act with respect to the disposition of securities covered by such Registration Statements;

(ii) Respond as promptly as reasonably practicable to any comments received from the SEC with respect to a Registration Statement or any amendment thereto.

(iii) Notify the Stockholders as promptly as reasonably practicable and (if requested by any such person) confirm such notice in writing no later than one trading day following the day (A) when a Prospectus or any Prospectus supplement or post-effective amendment to a Registration Statement is proposed to be filed and (B) with respect to a Registration Statement or any post-effective amendment, when the same has become effective;

(iv) Furnish such number of Prospectuses and other documents incident thereto, including supplements and amendments, as the Stockholder may reasonably request;

(v) Furnish to the Stockholder, upon request, a copy of all documents filed with and all correspondence from or to the SEC in connection with any such registration statement other than non-substantive cover letters and the like;

(vi) Use its reasonable best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a registration statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment; and

(vii) Use its reasonable best efforts to comply with all applicable rules and regulations of the SEC.

Notwithstanding the foregoing, if at any time or from time to time after the date hereof, the Company notifies a Stockholder whose shares are registered on a Registration Statement (a "SELLING STOCKHOLDER") in writing of the existence of an event or circumstance that is not disclosed in such Registration Statement and that may have a material effect on the Company or its business (a "POTENTIAL MATERIAL Event"), the Selling Stockholder shall not offer or sell any Registrable Securities, or engage in any other transaction involving or relating to the Registrable Securities, from the time of the giving of notice with respect to a Potential Material Event until the Company notifies the Selling Stockholder that such Potential Material Event either has been added to the Registration Statement by amendment or supplement or no longer constitutes a Potential Material Event; PROVIDED, that the Company may not so suspend the right of a Selling Stockholder for more than One-Hundred Twenty (120) days during any twelve (12) month period.

F. REGISTRATION EXPENSES.

(i) All expenses incident to the Company's performance of, or compliance with, the provisions hereof, including without limitation, all Commission and securities exchange or NASD registration and filing fees, fees and expenses of compliance with securities or "blue sky" laws (including fees and disbursements of counsel in connection with "blue sky" qualifications of the Registrable Securities), printing expenses, messenger and delivery expenses, internal expenses (including, without limitation, all salaries and expenses of the Company's officers and employees performing legal or accounting duties), fees and expenses incurred in connection with the listing of the securities to be registered, if any, on each securities exchange on which similar securities issued by the Company are then listed, fees and disbursements of counsel for the Company and its independent certified public accountants (including the expense of any special audit or "cold comfort" letters required by, or incident to, such performance),

Securities Act liability insurance (if the Company elects to obtain such insurance), reasonable fees and expenses of any special experts retained by the Company in connection with such registration, fees and expenses of other Persons retained by the Company in connection with each registration hereunder (but not including the fees and expense of legal counsel retained by a Stockholder or Stockholders, or any underwriting fees, discounts or commissions attributable to the sale of Registrable Securities) are herein called "Registration Expenses."

(ii) The Company will pay all Registration Expenses in connection with each Registration Statement filed pursuant to SECTION 3 except as otherwise set forth therein. Other than as specifically provided for in SECTION 3.A hereof, all expenses to be borne by the Stockholders in connection with any Registration Statement filed pursuant to SECTION 3 (including, without limitation, all underwriting fees, discounts or commissions attributable to such sale of Registrable Securities) shall be borne by the participating Stockholders pro rata in relation to the number of Registrable Securities to be registered by each Stockholder.

G. INDEMNIFICATION; CONTRIBUTION.

(i) INDEMNIFICATION BY THE COMPANY. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, each Stockholder, its officers, directors and each Person who controls such Stockholder (within the meaning of the Securities Act), and any agent or investment adviser thereof, against all losses, claims, damages, liabilities and expenses (including reasonable attorneys' fees and costs of investigation) arising out of or based upon any untrue or alleged untrue statement of material

fact contained in any Registration Statement, any amendment or supplement thereto, any Prospectus or preliminary Prospectus or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as the same arise out of or are based upon any such untrue statement or omission based upon information with respect to such Stockholder furnished in writing to the Company by or on behalf of such Stockholder expressly for use therein; PROVIDED that, in the event that the Prospectus shall have been amended or supplemented and copies thereof as so amended or supplemented, shall have been furnished to a Stockholder prior to the confirmation of any sales of Registrable Securities, such indemnity with respect to the Prospectus shall not inure to the benefit of such Stockholder if the Person asserting such loss, claim, damage or liability and who purchased the Registrable Securities from such Stockholder did not, at or prior to the confirmation of the sale of the Registrable Securities to such Person, receive a copy of the Prospectus as so amended or supplemented and the untrue statement or omission of a material fact contained in the Prospectus was corrected in the Prospectus as so amended or supplemented.

(ii) INDEMNIFICATION BY STOCKHOLDERS OF REGISTRABLE SECURITIES. In connection with any Registration Statement in which a Stockholder is participating, each such Stockholder will furnish to the Company in writing such information with respect to the name and address of such Stockholder and such other information as may be reasonably required for use in connection with any such Registration Statement or

Prospectus and agrees to indemnity, to the full extent permitted by law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue statement of a material fact in the Registration Statement or Prospectus or any amendment thereof or supplement thereto or necessary to make the statements therein not misleading, to the extent, but only to the extent, that such untrue or alleged untrue statement relates to any information with respect to such Stockholder so furnished in writing by such Stockholder specifically for inclusion in any Prospectus or Registration Statement; PROVIDED, HOWEVER, that such Stockholder shall not be liable in any such case to the extent that prior to the filing of any such Registration Statement or Prospectus or amendment thereof or supplement thereto, such Stockholder has furnished in writing to the Company information expressly for use in such Registration Statement or Prospectus or any amendment thereof or supplement thereto which corrected or made not misleading information previously furnished to the Company. In no event shall the liability of any Selling Stockholder hereunder be greater in amount than the dollar amount of the net proceeds received by such Selling Stockholder upon the sale of the Registrable Securities, sold under such Registration Statement or Prospectus as contemplated herein, giving rise to such indemnification obligation.

(iii) CONDUCT OF INDEMNIFICATION PROCEEDINGS. Any Person entitled to indemnification hereunder agrees to give prompt written notice to the indemnifying party after the receipt by such Person of any written notice of the commencement of any action, suit, proceeding or investigation or threat thereof made in writing for which such Person will claim indemnification or contribution pursuant to the provisions hereof and, unless in the judgment of counsel of such indemnified party a conflict of interest may exist between such indemnified party and the indemnifying party with respect to such claim, permit the indemnifying party to assume the defense of such claim. Whether or not such defense is assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation. If the indemnifying party is not entitled to, or elects not to, assume the defense of a claim, it will not be obligated to pay the fees and expenses of more than one counsel (plus such local counsel, if any, as may be reasonably required in other jurisdictions) with respect to such claim, unless in the judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim, in which event the indemnifying party shall be obligated to pay the fees and expenses of such additional counsel or counsels. For the purposes of this Section 5(c), the term "conflict of interest" shall mean that there are one or more legal defenses available to the indemnified party that are different from or additional to those available to the indemnifying party or such other indemnified parties, as applicable, which different or additional defenses make joint representation inappropriate.

(iv) CONTRIBUTION. If the indemnification from the indemnifying party provided for in this Section 5 is unavailable to an indemnified party hereunder in

respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(v) If indemnification is available under this Section 5, the indemnifying parties shall indemnity each indemnified party to the full extent provided in Sections 5(a) and (b) without regard to the relative fault of said indemnifying party or indemnified party or any other equitable consideration provided for in this Section 5.

H. LIMITATION TO REGISTRATION REQUIREMENT. Notwithstanding anything else herein to the contrary, the Company shall not be obligated to effect any registration of the Registrable Securities or take any other action (i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Exchange Act, or (ii) during any period in which the Company suspends the rights of a subscriber after giving the Subscriber written notification of a Material Event.

I. TRANSFER OF RIGHTS. The rights to cause the Company to register Registrable Securities granted pursuant to the provisions hereof may be transferred or assigned by any Stockholder to a transferee or assignee; PROVIDED; HOWEVER, that the transferee or assignee of such rights assumes the obligations of such transferor or assignor, as the case may be, hereunder.

J. INFORMATION BY STOCKHOLDER. The Stockholder or holders of Registrable Securities included in any Registration Statement shall furnish to the Company such information regarding such Stockholder or Stockholders and the distribution of securities by such Stockholder or Stockholders as the Company may request in writing.

K. COMPLIANCE. Holder covenants and agrees that such Stockholder will comply with the prospectus delivery requirements of the Act as applicable to such Stockholder in connection with sales of Registrable Securities pursuant to the Registration Statements required hereunder.

4. AMENDMENT. Except as otherwise provided herein, the provisions hereof may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of holders of at least a majority of the aggregate number of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this SECTION 10 shall be binding upon each Holder that is a party to this Agreement, and each future holder of Registrable Securities and the Company.

5. SUCCESSORS AND ASSIGNS. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

6. GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of California, irrespective of its choice of law principles.

7. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which

together shall constitute one and the same instrument.

8. TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

9. NOTICES. Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or, if sent by telex, telecopier or e-mail transmission, upon receipt of the correct answer back, or upon deposit with the United States Post Office, by registered or certified mail, or upon deposit with an overnight air courier, in each case postage prepaid and addressed to the party to be notified at the address indicated for such party in the records of the Company, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

10. SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

11. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements, term sheets, letters, discussions and understandings of the parties in connection therewith.

12. FURTHER ASSURANCES. Each party to this Agreement shall execute all instruments and documents and take all actions as may be reasonably required to effectuate this Agreement, whether before, concurrently with or after the consummation of the transactions contemplated hereby.

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

CNSR : CNS RESPONSE, INC.

By: _____

Name: Leonard J. Brandt
Title: President and Chief Executive Officer

STRV : STRATIVATION, INC.

By: _____

Name: Leonard J. Brandt
Title: President and Chief Executive Officer

[SIGNATURE PAGE TO STRATIVATION, INC.
REGISTRATION RIGHTS AGREEMENT]

STOCKHOLDERS:

Name of Stockholder (please print)

Name of Authorized Representative (if applicable)

Title (if applicable)

Signature

[SIGNATURE PAGE TO STRATIVATION, INC.
REGISTRATION RIGHTS AGREEMENT]

APPENDIX
to
STRATIVATION, INC.'S
REGISTRATION RIGHTS AGREEMENT

SCHEDULE OF STOCKHOLDERS

SHAREHOLDER	COMMON STOCK	COMMON STOCK ISSUABLE UPON EXERCISE OF OUTSTANDING WARRANTS
Albert Davis	22,620	0
Albert Davis	453	0
Anthony Morgenthau	0	7,415
Barry Kass	140,545	0
Brean Murray Caret & Co.	7,920	4,752
Brian MacDonald	1,015,459	0
Carl Cadwell, M.D	101,806	42,330
Crown Jewel Ventures, LLC	108,182	42,331
Daniel Hoffman, M.D	56,378	0
Doug Metz	9,566	8,176
George C. Foulkes	21,636	8,466
George Hochwinner	24,723	14,834
Glen Baron	64,910	25,398
Harmony Hill Partners, L.P.	462,937	211,653
James Greenblat, M.D	84,028	45,000
James R. Negate	29,061	25,398
Jay Shaffer, M.D	11,015	0
Jenel Holdings, Inc.	33,758	13,209
Joe B Wolfe	25,000	15,000
Joel Gottesman	108,182	42,331
John Pagnucco	225,856	150,826
John W Pagnucco 1998 Rollover Roth IRA RBC Dain Rauscher	75,000	45,000
Kathleen Guerry	14,850	8,910
Kenneth Leonard	108,182	42,331
Lawrence M. Sail	21,636	8,466
Leonard J. Brandt	2,201,838	274,850
MAO Holdings (Cayman) Limited	250,000	150,000
Mark Shiller, M.D	407,540	0
Masco Associates	61,120	25,398
Max A. Schneider, M.D	125,242	0
Median & Carroll, LLP	107,500	64,500
Meyer Proler, M.D	204,644	26,923
Meyerlen, LLC	791,305	670,900
Michael Metzig	43,392	0
Michael Tippie	48,921	0
Odyssey Venture Partners II, L.P.	2,736,905	1,117,365
Pike Family Trust	57,037	50,797
Robert Prosek	188,881	0
Roland A. Sauer	17,629	0
Seaquestor Trust	100,000	60,000
Spenser Segal	35,601	6,350
Stefanie and David Galey	32,454	12,699
Stephen C. Suffin, M.D	205,186	21,165

Stubbs Alderton & Markiles, LLP	81,880	37,128
The EAC Investment Partnership	1,249,846	474,102
Troy Taylor	99,005	59,403
W. Hamlin Emory, M.D	117,170	0

EXHIBIT 16.1

[LETTERHEAD OF SPECTOR & WONG, LLP]
80 South Lake Avenue
Suite 723
Pasadena, CA 91101

Securities and Exchange Commission
100 F. Street, NE
Washington, D.C. 20549

March 12, 2007

Ladies and Gentlemen:

We have been furnished with a copy of the response to Item 4.01 of Form 8-K for the change in auditor to be filed by our former client, CNS Response, Inc (formerly called Strativation, Inc.). We agree with the statements made in response to that Item insofar as they relate to our Firm.

Very truly yours,

/s/ Spector & Wong, LLP

Spector & Wong, LLP

CNS Response, Inc., a California corporation, is a wholly owned subsidiary of the Registrant.

EXHIBIT 99.1

CNS RESPONSE COMPLETES REVERSE MERGER INTO STRATIVATION

RAISES $7 MILLION IN PRIVATE PLACEMENT

COSTA MESA, CALIF., MARCH 9, 2007 -- CNS Response, Inc. ("CNSR") today announced the completion of its reverse merger into publicly held Strativation, Inc. (OTC: STVT.OB). The combined company will operate as CNS Response, Inc. under the leadership of the CNSR management team and will trade on the Over-the-Counter Stock Market under the symbol "CNSO."

The merger creates a publicly traded company uniquely focused on the first proven neurophysiologic biomarker system for psychiatric treatment and CNS drug development. CNSR's business is focused on the commercialization of a patented statistical probability system that aids physicians in the identification of effective medications for patients with certain behavioral (mental or addictive) disorders. This methodology is called "REFERENCED-EEG" or "REEG".

CNSR also announced that it raised approximately $7 million in gross proceeds through a private placement of 5.84 million units at $1.20 per unit. Each unit consists of one share of common stock and a five-year non-callable warrant to purchase three-tenths of a share at an exercise price of $1.80. As a result of the private placement, CNS Response will have approximately 25 million basic shares outstanding.

Leonard Brandt, Chief Executive Officer of CNS Response, said, "Our merger into Strativation and simultaneous capital raise provides the public vehicle and funds to continue to pursue the validation and commercialization of our core Referenced-EEG (rEEG) technology. Reported open-label, retrospective and blinded prospective studies have shown rEEG to have successfully guided physician treatments of patients between 70% and 90% of the time. Most of the patients in these studies were considered treatment-resistant based on failure to respond to previous medication efforts. rEEG also affords numerous applications in CNS drug discovery and development, a field which has been plagued by the same lack of physiologic markers as clinical psychiatric care."

Under terms of the transaction, CNS Response has committed to use its best efforts to register the privately placed shares by filing a Registration Statement with the U.S. Securities & Exchange Commission (SEC) within the next 45 days.

Brean Murray, Carret & Co., LLC served as financial advisor to CNS Response on the reverse merger and acted as sole placement agent in the $7 million capital raise.

ABOUT CNS RESPONSE
CNS Response is the first company to commercialize an objective system for matching mental and addiction patient physiology to treatment outcome (a biomarker system) thereby fundamentally altering the treatment of neuropsychiatric illness. Referenced-EEG (rEEG) is a

patented technology that utilizes common electroencephalography (EEG) in conjunction with a normative database and a proprietary clinical (symptomatic) database to identify abnormal patient physiology. Appropriate medications are then selected specifically based upon proprietary treatment algorithms that correlate treatment to identified abnormalities. CNS Response has developed this technology to assess the presence of individual neurophysiologic abnormalities and to guide subsequent psychiatric treatment. Retrospective and prospective studies of treatment-resistant patients in managed care, outpatient psychiatric and residential substance abuse clinical settings have reported treatment success of 70% or greater. rEEG can also be used to stratify study populations to improve the success of FDA clinical trials, to provide insight on effective therapeutic dosing of investigational drugs, to identify additional indications for psychiatric medications, to provide insight into effective drug combinations, and to identify psychiatric indications for non-psychiatric medications.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
Except for the historical information contained herein, the matters discussed are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. These statements involve risks and uncertainties as set forth in the Company's filings with the Securities and Exchange Commission. These risks and uncertainties could cause actual results to differ materially from any forward-looking statements made herein.

CONTACTS:

THE RUTH GROUP

John Quirk / Sara Ephraim (investors)
(646) 536-7029 / 7002
jquirk@theruthgroup.com
sephraim@theruthgroup.com

Janine McCargo / Jason Rando (media)
(646) 536-7033 / 7025
jmccargo@theruthgroup.com
jrando@theruthgroup.com

# # #

EXHIBIT 99.2

CNS RESPONSE, INC.

UNAUDITED FINANCIAL STATEMENTS
THREE-MONTH PERIODS ENDED DECEMBER 31, 2006 AND 2005

CNS RESPONSE, INC.

CONDENSED BALANCE SHEETS

	December 31, 2006 (unaudited)	September 30, 2006
ASSETS		
Current assets:		
Cash	$ 1,378,600	$ 204,900
Accounts receivable (net of allowance for doubtful accounts of $18,600 as of December 31, 2006 and $4,800 as of September 30, 2006)	25,300	25,400
Prepaid and other	261,700	67,000
Total current assets	1,665,600	297,300
Intangible assets (net of accumulated amortization of $558,100 as of December 31, 2006 and $538,200 as of September 30, 2006)		19,900
Loans to related parties	154,200	161,100
Deferred offering costs	112,900	
Other assets	19,600	15,900
Total assets	$ 1,952,300	$ 494,200

	December 31, 2006 (unaudited)	September 30, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable (including $8,000 to related parties)	$ 404,100	$ 666,100
Accrued liabilities	250,000	248,700
Deferred compensation (including $65,900 and $58,000 to related parties as of December 31, 2006 and September 30, 2006, respectively)	79,100	75,200
Accrued consulting fees	108,000	136,700
Accrued interest (including $414,700 to related parties as of September 30, 2006)	36,800	1,156,500
Note payable to NuPharm Database, LLC	287,400	287,400
Convertible promissory notes	54,900	3,116,700
Total current liabilities	1,220,300	5,687,300
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, no par value;		

Authorized, 20,000,000 shares; 7,899,493 shares outstanding as of December 31, 2006 and none outstanding as of September 30, 2006	5,958,200	--
Common stock, no par value; authorized, 80,000,000 shares; issued and outstanding, 9,845,132 shares as of December 31, 2006 and 7,034,117 shares as of September 30, 2006	1,051,700	712,800
Additional paid-in capital	2,145,100	2,117,200
Accumulated deficit	(8,423,000)	(8,023,100)
Total stockholders' equity (deficit)	732,000	(5,193,100)
Total liabilities and stockholders' equity (deficit)	$ 1,952,300	$ 494,200

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

CNS RESPONSE, INC.

UNAUDITED CONDENSED STATEMENT OF OPERATIONS

	For the three months ended December 31,	
	2006	2005
Revenues	$ 46,600	$ 36,600
Operating expenses:		
Cost of revenues (including amortization expense of $19,900 in 2006 and 2005)	47,000	33,300
Research and development	180,100	89,000
Sales and marketing	26,000	11,000
General and administrative	194,200	146,800
Total operating expenses	447,300	280,100
Operating loss	(400,700)	(243,500)
Other income (expense):		
Interest expense, net	(51,000)	(97,300)
Other income	51,800	--
Total other income (expense)	800	(97,300)
Loss before income taxes	(399,900)	(340,800)
Income taxes	--	--
Net loss	$ (399,900)	$ (340,800)
Net loss per share:		
Basic	$ (0.04)	$ (0.28)
Diluted	$ (0.04)	$ (0.28)
Shares used in per share calculations:		
Basic	9,658,920	1,200,000
Diluted	9,658,920	1,200,000

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

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

	For the three months ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net (loss)	$ (399,900)	$ (340,800)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of intangible assets	19,900	19,900
Other	(4,400)	
Stock-based compensation	900	
Changes in operating assets and liabilities:		
Accounts receivable	100	(2,700)
Prepaids and other current assets	(43,800)	(5,000)
Accounts payable	(128,200)	(60,200)
Accrued liabilities	1,300	
Deferred compensation	7,900	67,500
Accrued consulting fees	11,300	62,700
Accrued interest	5,300	95,000
Net cash used in operating activities	(529,500)	(163,600)
Cash flows from investing activities:		
Increase in deposits	(3,000)	
Loans to employees	(2,400)	
Net cash used in investing activities	(5,400)	0
Cash flows from financing activities:		
Proceeds from sale of preferred stock	1,731,000	
Proceeds from exercise of warrants	28,000	
Deferred offering costs	(50,400)	
Net cash provided by financing activities	1,708,600	0
Net increase (decrease) in cash	1,173,700	(163,600)
Cash, beginning of period	204,900	478,400
Cash, end of period	$ 1,378,600	$ 314,800

The accompanying notes are an integral part of these financial statements

CNS RESPONSE, INC.

UNAUDITED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Additional Paid-In		Total Stockholders'
	Shares	Value	Shares	Value	Capital	Accumulated Deficit	Equity (Deficit)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
THREE MONTHS ENDED DECEMBER 31, 2006							
Balance, October 1, 2006	--	--	7,034,117	$ 712,800	$ 2,117,200	$(8,023,100)	$(5,193,100)
Forgiveness of accrued interest and exercise of warrants by NuPharm	--	--	2,800,000	147,700	--	--	147,700

Conversion of promissory notes and accrued interest	5,993,515	4,067,100	--	--	--	--	4,067,100
Proceeds from private placement, net of offering costs of $33,900	1,905,978	1,891,100	--	--	--	--	1,891,100
Issuance of stock for settlement of debt	--	--	11,015	1,400	--	--	1,400
Stock-based compensation	--	--	--	--	900	--	900
Issuance of options for settlement of debt	--	--	--	--	27,000	--	27,000
Net loss for the period	--	--	--	--	--	(352,500)	(352,500)
Balance, December 31, 2006	7,899,493	$ 5,958,200	9,845,132	$ 861,900	$ 2,145,100	$(8,375,600)	$ 589,600

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Additional Paid-In		Total Stockholders' Equity
	Shares	Value	Shares	Value	Capital	Accumulated Deficit	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
THREE MONTHS ENDED DECEMBER 31, 2005							
Balance, October 1, 2005	--	--	1,200,000	$ 12,000	$ 16,200	$(8,105,700)	$(8,077,500)
Net loss for the period	--	--	--	--	--	(340,800)	(340,800)
Balance, December 31, 2005	--	$ --	1,200,000	$ 12,000	$ 16,200	$(8,446,500)	$(8,418,300)

</TABLE>

CNS RESPONSE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The unaudited condensed financial statements of CNS Response, Inc. ("CNS," "we," "us," "our" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and include all the accounts of CNS. Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of our financial position as of December 31, 2006 and our operating results, cash flows, and changes in stockholders' equity for the interim periods presented. The September 30, 2006

balance sheet was derived from our audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements and the related notes should be read in conjunction with our financial statements and notes for the year ended September 30, 2006.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and revenues and expenses in the financial statements. Examples of estimates subject to possible revision based upon the outcome of future events include, among others, recoverability of long-lived assets and goodwill, stock-based compensation, the allowance for doubtful accounts, use and other taxes. Actual results could differ from those estimates.

The results of operations for the three months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the future periods or for the year ending September 30, 2007.

2. LOANS TO RELATED PARTIES

In September 2006, the Company loaned certain officer and employees $175,900 under notes bearing interest at 5.26% per annum, compounded annually, and requiring payment on or after the earlier of (i) the date that is two years following the date of the note, and (ii) a demand by the Company following the date on which the Company has received an aggregate of $5,000,000 from the sale(s) of its capital stock provided the assigned value (as defined) of the stock at the time of the demand is more than $1. The repayment of the notes may be made in one of the following ways, or in combination of both:

(a) in cash, or

(b) by tendering Common Stock of the Company owned by the borrower, with an aggregate Assigned Value (as defined) equal to the principal and accrued interest on the notes.

Pursuant to the abovementioned terms, the Company demanded payment of all such notes upon the completion of the merger and private placement for $7,005,000 described in Note 9 below. The officer who owed the Company $93,900, including interest, repaid the loan by tendering 78,219 shares of the Company's Common Stock. The other employees will inform the Company within the next 5 business days whether they will either remit cash or tender shares.

3. DEFERRED OFFERING COSTS

Direct, incremental costs incurred in connection with the private placement for $7,005,000 described in Note 9 have been deferred and capitalized in the accompanying balance sheet as of December 31, 2006. Such costs will be recorded as a reduction of the proceeds received from such offering.

4. CONVERTIBLE PROMISSORY NOTES

In October 2006, the Company and the note holders of certain of the convertible promissory notes converted notes with an aggregate outstanding balance of $3,061,700 and related accrued and unpaid interest of $1,005,300 at September 30, 2006 into 5,993,515 shares of the Company's Series A Preferred Stock. In addition, the exercise price of warrants to purchase 1,062,116 shares of the Company's common stock issued to such note holders was changed to $0.59 per share. The preferred shares were converted into 5,993,515 shares of the Company's common stock upon the merger with Strativation, Inc. described in Note 9.

5. NOTE PAYABLE TO NUPHARM DATABASE, LLC

In connection with the January 2000 Asset Purchase Agreement between the Company and NuPharm Database, LLC (NuPharm) providing for the purchase of a database and the assumption of certain NuPharm liabilities, the Company issued a subordinated note payable to NuPharm in the amount of $299,900 bearing interest at 8% per year and due on March 15, 2004 and a warrant to purchase 2,800,000 shares of the Company's common stock at $0.01 per share. The warrant was not exercised before expiring in 2005.

In October 2006, the Company and NuPharm Database, LLC (NuPharm) agreed to exchange the note and the related accrued interest for a 5% note in the principal amount of $287,400, representing the outstanding principal at September 30, 2006, and warrants to purchase 2,800,000 shares of the Company's common stock at $0.01 per share. The note is due and payable on demand five years from the date of issuance, can be prepaid by the Company at any time without penalties and is convertible into shares of common stock of the Company upon the completion of a financing (as defined) at a price per share of the common stock in the financing. Such warrant was exercised in October 2006. The Company valued the warrant at $309,550 using the Black-Scholes model and recorded the excess of the value of the warrant over the forgiven accrued interest of $119,700 as a prepaid asset. The excess is being amortized as interest expense over the expected term of the new note of one year.

Pursuant to the abovementioned terms, the note payable to NuPharm will be converted into 239,500 shares of the Company's Common Stock upon the completion of the merger and private placement for $7,005,000 described in Note 9. Upon conversion, the entire balance of the unamortized prepaid interest will be charged to interest expense.

6. PRIVATE PLACEMENT-SERIES B PREFERRED STOCK

In October and November, 2006, the Company sold 1,905,978 Units in a private financing resulting in net proceeds of $1,891,100, net of offering costs of $33,900. Each Unit consists of one share of Series B Preferred Stock and 5-year warrants to purchase .6 shares of the Company's common stock at $1.51 per share. Holders of the Series B Preferred Stock will be entitled to receive non-cumulative dividends at an annual rate of 4% when, as and if declared by the Board. Each share of the Series B Preferred Stock initially converts into one share of the Company's Common Stock at any time at the option of the holder. However, each share of Series B Preferred Stock will automatically convert into Common Stock at the then applicable conversion rate in the event of (i) the sale of $5,000,000 or more of Common Stock or units consisting of Common Stock and warrants in one or more related transactions; (ii) the closing of an underwritten public offering with a price equal or greater than $1.21 per share and net proceeds to the Company of not less than $5,000,000, or (iii) upon the written consent of the holders of the majority of the Series A Preferred (see below) in the case of conversion of the Series A Preferred or the Series B Preferred in the case of conversion of the Series B Preferred.

Pursuant to the abovementioned terms, the preferred shares were converted into 1,905,978 shares of the Company's Common Stock upon the completion of the merger and private placement for $10,125,000 described in Note 9.

7. STOCK-BASED COMPENSATION

On August 3, 2006, the Company adopted the CNS Response, Inc. 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 nonstatutory stock options (NSO)), stock appreciation rights and stock unit grants to eligible employees, directors and consultants and is administered by the board of directors. A total of 10 million shares of stock are reserved for issuance under the 2006 Plan. As of December 31, 2006, there were 4,136,103 million options and 183,937 restricted shares outstanding under the 2006 Plan and 5,815,660 shares available for issuance of awards.

The 2006 Plan provides that in any calendar year, no eligible employee or director shall be granted an award to purchase more than 3 million shares of stock. The option price for each share of stock subject to an option shall be (i) no less than the fair market value of a share of stock on the date the option is granted, if the option is an ISO, or (ii) no less than 85% of the fair market value of the stock on the date the option is granted, if the option is a NSO ; provided, however, if the option is an ISO granted to an eligible employee who is a 10% shareholder, the option price for each share of stock subject to such ISO shall be no less than 110% of the fair market value of a share of stock on the date such ISO is granted. Stock options have a maximum term of ten years from the date of grant, except for ISOs granted to an

eligible employee who is a 10% shareholder, in which case the maximum term is five years from the date of grant. ISOs may be granted only to eligible employees.

The Company has adopted SFAS No. 123R (revised 2004), "Share-Based Payment", and related interpretations. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The Company estimates the fair value of each option on the grant date using the Black-Scholes model. The following assumptions were made in estimating the fair value:

Dividend yield	0%
Risk-free interest rate	5.46%
Expected volatility	100%
Expected life	5 years

The expense is recognized over the employees' requisite service period, generally the vesting period of the award. Compensation costs charged to operations for the quarter ended December 31, 2006 amounted to $900. Total unrecognized compensation costs related to non-vested stock-based compensation as of December 31, 2006 amounted to $21,600. There were no options issued or outstanding during the quarter ended December 31, 2005.

Option activity is as follows:

	Number of Shares	Weighted Average Exercise Price
Activity for the year ended September 30, 2006		
Outstanding at beginning of year	--	$ --
Granted	4,000,403	0.13
Exercised	--	--
Forfeited	--	--
Outstanding at end of year	4,000,403	0.13
Activity for the quarter ended December 31, 2006		
Granted	135,700	0.30
Exercised	--	--
Forfeited	--	--
Outstanding at end of year	4,136,103	$ 0.14
Weighted average fair value of options granted during:		
Year ended September 30, 2006		$ 0.09
Quarter ended December 31, 2006		$ 0.27

Following is a summary of the status of options outstanding at December 31, 2006:

Exercise Price	Number of Shares	Average Contractual Life
$0.12	859,270	10 years
$0.132	3,112,545	10 years
$0.30	135,700	10 years
$0.59	28,588	10 years

8. NET LOSS PER SHARE

In accordance with 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 quarters ended December 31, 2006 and 2005, the Company has excluded all common equivalent shares from the calculation of diluted net loss per share as such securities are anti-dilutive.

Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share are as follows:

	Quarter ended December 31,	
	2006	2005
Convertible debt	--	323,086,919
Preferred stock	7,899,493	--
Warrants	4,271,414	2,496,063
Options	4,136,103	--

9. SUBSEQUENT EVENTS

On January 16, 2007, CNS, a California corporation, entered into an Agreement and Plan of Merger (the "Merger Agreement") with the CNS Merger Corporation, a California corporation ("MergerCo") and a wholly-owned subsidiary of Strativation, Inc, a Delaware corporation ("Strativation"). Pursuant to the Merger Agreement MergerCo would be merged with and into CNS, with CNS being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed, CNS became the wholly-owned subsidiary of Strativation, and Strativation changed its name to CNS Response, Inc. Pursuant to the Merger, the issued and outstanding shares of common stock of CNS were converted into an aggregate of 9,845,132 shares of Strativation's Common Stock, and the issued and outstanding shares of Series A-1, A-2 and B preferred stock of CNS were converted into 5,189,294, 804,221 and 1,905,978 shares of Strativation's Common Stock, respectively. In addition, options and warrants to purchase shares of preferred stock and common stock of CNS were converted into options and warrants to purchase 4,136,103 and 4,271,414 shares of Strativation's Common Stock. Following the Merger, the business conducted by Strativation is the business conducted by CNS before the Merger.

The Merger has been accounted as a reverse merger under generally accepted accounting principles. Therefore: (1) the consolidated financial statements of Strativation for periods prior to the date of the merger will reflect only the operations of CNS, and (2) the consolidated financial statements will present the previously issued shares of Strativation as having being issued pursuant to the Merger, and the shares of Common Stock of Strativation issued to the former shareholders of CNS pursuant to the Merger as having been outstanding since Strativation's inception. No goodwill or other intangible assets was recorded as a result of the Merger. Immediately prior to the Merger, Strativation had no material operations.

On March 7, 2007, Strativation completed the sale of 5,840,374 units at $1.20 per unit in a private placement transaction pursuant to Regulation D promulgated under the Securities Act of 1933, as amended. Each unit consists of (i) of one (1) share of the Common Stock of Strativation, and (ii) three-tenths (3/10) of a five (5) year warrant to purchase one (1) share of Strativation's Common Stock at $1.80 per share. Proceeds from the placement, net of estimated offering costs, amounted to $6,172,000.

CNS RESPONSE, INC.

FINANCIAL STATEMENTS
FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
CNS Response, Inc.

We have audited the accompanying balance sheets of CNS Response, Inc. (the "Company") as of September 30, 2006 and 2005, and the related statements of operations and comprehensive loss, changes in stockholders' equity and cash

flows for each of the years in the two-year period ended September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CNS Response, Inc. at September 30, 2006 and 2005, and the results of its operations and it cash flows for each of the years in the two-year period ended September 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Cacciamatta Accountancy Corporation

Irvine, California
November 15, 2006

<TABLE>
CNS RESPONSE, INC.
BALANCE SHEETS
SEPTEMBER 30, 2006 AND 2005

<CAPTION>

ASSETS	2006	2005
<S>	<C>	<C>
CURRENT ASSETS:		
Cash	$ 204,900	$ 478,400
Accounts receivable (net of allowance for doubful accounts of $4,800 in 2006 and $0 in 2005)	25,400	28,500
Prepaids	67,000	--
Total current assets	297,300	506,900
OTHER ASSETS:		
Intangible assets (net of accumulated amortization of $538,200 in 2006 and $458,500 in 2005)	19,900	99,700
Loans to related parties	161,100	--
Other assets (including loans to employees of $14,800 in 2006)	15,900	1,100
TOTAL ASSETS	$ 494,200	$ 607,700
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable (including $8,000 in 2006 and $198,300 in 2005 to related parties)	$ 666,100	$ 682,600
Accrued liabilities	248,700	282,900
Deferred compensation (including $58,000 in 2006 and $1,274,500 in 2005 to related parties)	75,200	1,490,100
Accrued consulting fees (including $0 in 2006 and $41,100 in 2005 to related parties)	136,700	833,200
Accrued interest (including $414,700 in 2006 and $301,800 in 2005 to related parties)	1,156,500	1,002,600
Note payable to NuPharm Database, LLC	287,400	287,400
Convertible promissory notes payable (including $1,768,300 in 2006 and $1,257,000 in 2005 to related parties)	3,116,700	2,616,700
Derivative instrument liability	--	1,489,700

Total current liabilities	5,687,300	8,685,200
COMMITMENTS AND CONTINGENT LIABILITIES (Note 10)	--	--
STOCKHOLDERS' DEFICIT:		
Preferred stock, no par value; authorized, 20,000,000 shares ; none outstanding in 2006 and 2005	--	--
Common stock, no par value; authorized, 80,000,000 shares; issued and outstanding, 7,034,117 in 2006 and 1,200,000 in 2005	712,800	12,000
Additional paid-in capital	2,117,200	16,200
Accumulated deficit	(8,023,100)	(8,105,700)
Total stockholders' deficit	(5,193,100)	(8,077,500)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 494,200	$ 607,700

</TABLE>

See accompanying notes to financial statements.

CNS RESPONSE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
REVENUES	$ 175,500	$ 127,400
OPERATING EXPENSES:		
Cost of revenues (including amortization expense of $79,800 in 2006 and 2005)	175,900	165,100
Research and development	76,700	58,500
Sales and marketing	36,000	52,900
General and administrative	1,671,100	811,800
Total operating expenses	1,959,700	1,088,300
OPERATING LOSS	(1,784,200)	(960,900)
OTHER INCOME (EXPENSE):		
Interest expense, net	(390,600)	(330,700)
Gain (loss) on derivative instruments	1,178,500	(212,500)
Gain on troubled debt restructuring	1,079,700	--
Total other income (expense)	1,867,600	(543,200)
INCOME (LOSS) BEFORE PROVISION FOR TAXES	83,400	(1,504,100)
PROVISION FOR TAXES	800	800
NET INCOME (LOSS)	$ 82,600	$ (1,504,900)
BASIC NET INCOME (LOSS) PER SHARE	$ 0.04	$ (1.25)
DILUTED NET INCOME (LOSS) PER SHARE	$ 0.01	$ (1.25)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	1,967,226	1,200,000
Diluted	32,500,755	1,200,000

See accompanying notes to financial statements.

<TABLE>

CNS RESPONSE, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE - October 1, 2004	1,200,000	$ 12,000	$ 16,200	$(6,600,800)	$(6,572,600)
Net loss for the year ended September 30, 2005	--	--	--	(1,504,900)	(1,504,900)
BALANCE - September 30, 2005	1,200,000	12,000	16,200	(8,105,700)	(8,077,500)
Reclassification of derivative instrument liability	--	--	343,100	--	343,100
Issuance of stock for settlement of debt	5,834,117	700,800	--	--	700,800
Troubled debt restructured with related parties	--	--	1,388,000	--	1,388,000
Fair value of options issued to employees and consultants	--	--	369,900	--	369,900
Net income for the year ended September 30, 2006	--	--	--	82,600	82,600
BALANCE - September 30, 2006	7,034,117	$ 712,800	$ 2,117,200	$(8,023,100)	$(5,193,100)

</TABLE>

See accompanying notes to financial statements.

<TABLE>
CNS RESPONSE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

<CAPTION>

	2006	2005
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 82,600	$(1,504,900)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of intangible assets	79,800	79,800
Allowance for doubtful accounts	4,800	--
Gain (loss) on derivative instruments	(1,178,500)	212,500
Gain on troubled debt restructuring	(1,079,700)	--
Stock-based compensation	369,900	--
Warrants issued for marketing costs	--	18,000
Changes in operating assets and liabilities:	--	--
Accounts receivable	(1,700)	(10,100)
Prepaids	(67,000)	--
Other assets	--	(800)
Accounts payable	202,700	82,200
Accrued liabilities	5,900	3,700
Deferred compensation	298,800	297,300
Accrued consulting	301,300	265,800
Accrued interest	383,500	323,500
Net cash used in operating activities	(597,600)	(233,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans to employees	(175,900)	--
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible promissory notes	500,000	499,500

NET INCREASE (DECREASE) IN CASH	(273,500)	266,500
CASH--Beginning of year	478,400	211,900
CASH--End of year	$ 204,900	$ 478,400
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION--		
Cash paid during the period for:		
Interest	$ --	$ --
Income taxes	$ 800	$ 800
Common stock issued for settlement of troubled debt	$ 700,800	$ --

</TABLE>

See accompanying notes to financial statements.

CNS RESPONSE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

1. NATURE OF OPERATIONS

ORGANIZATION AND NATURE OF OPERATIONS--CNS Response, Inc. (the "Company") was incorporated in California on January 11, 2000. The Company utilizes a patented system that guides psychiatrists and other physicians to determine a proper treatment for patients with mental, behavioral and/or addictive disorders. The Company also intends to identify, develop and commercialize new indications of approved drugs and drug candidates for this patient population.

GOING CONCERN UNCERTAINTY-The Company has a limited operating history and its operations are subject to certain risks and uncertainties frequently encountered by rapidly evolving markets. These risks include the failure to develop or supply technology or services, the ability to obtain adequate financing, competition within the industry and technology trends.

To date, the Company has financed its cash requirements primarily from debt financings. It will be necessary for the Company to raise additional funds. The Company's liquidity and capital requirements depend on several factors, including the rate of market acceptance of its services, the ability to expand and retain its customer base, its ability to execute its current business plan and other factors.

The Company is in the process of offering to sell 7,500,000 Units at $1.35 per unit. Each Unit is comprised of (i) one share of Common Stock and one five year non-callable warrant to purchase three-tenths (3/10) of one share of Common Stock at an exercise price of $2.00 per share. We cannot assure such financing will be available on commercially favorable terms or at all.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION--The financial statements of the Company have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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

CASH--The Company deposits its cash with major financial institutions and may at times exceed federally insured limits. 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS--The Company's short-term financial instruments, including cash, accounts receivable and accounts payable are carried at cost. The cost of the short-term financial instruments approximates fair value due to their relatively short maturities. The carrying value of long-term financial instruments, including notes payable, approximates fair value as the interest rates approximate current market rates of similar debt obligations.

ACCOUNTS RECEIVABLE--The Company estimates the collectibility 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.

INTANGIBLE ASSETS--Intangible assets consist of a purchased database recorded at cost and amortized over an estimated useful life of seven years.

LONG-LIVED ASSETS--As required by Statement of Financial Accounting Standards ("SFAS") No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, the Company reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. No impairment loss was recorded for the years ended September 30, 2006 and 2005.

REVENUES--The Company recognizes revenue as the related services are delivered.

RESEARCH AND DEVELOPMENT EXPENSES--The Company charges all research and development expenses to operations as incurred.

ADVERTISING EXPENSES--The Company charges all advertising expenses to operations as incurred.

STOCK-BASED COMPENSATION--The Company has adopted SFAS No. 123R, SHARE-BASED PAYMENT (revised 2004) and related interpretations which establish the accounting for equity instruments exchanged for employee services. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employees' requisite service period, generally the vesting period of the award.

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

COMPREHENSIVE INCOME (LOSS) -- SFAS No. 130, REPORTING COMPREHENSIVE INCOME, requires disclosure of all components of comprehensive income (loss) on an annual and interim basis. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive income (loss) is the same as its reported net income (loss) for the years ended September 30, 2006 and 2005.

INCOME (LOSS) PER SHARE -- Basic and diluted net income (loss) per share has been computed using the weighted average number of shares of common stock outstanding during the period.

SEGMENT INFORMATION--The Company uses the management approach for determining which, if any, of its products and services, locations,

customers or management structures constitute a reportable business segment. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of any reportable segments. Management uses one measurement of profitability and does not disaggregate its business for internal reporting and therefore operates in a single business segment.

3. LOANS TO RELATED PARTIES

In September 2006, the Company loaned certain officers and employees $175,900 under notes bearing interest at 5% per annum, compounded annually, and requiring payment on or after the earlier of (i) the date that is two years following the date of the note, and (ii) a demand by the Company following the date on which the Company has received an aggregate of $5,000,000 from the sale(s) of its capital stock provided the assigned value (as defined) of the stock at the time of the demand is more than $1. Two of the borrowing employees are related parties as they own more than 10% of the common stock of the Company.

4. TROUBLED DEBT RESTRUCTURING--DEFERRED COMPENSATION AND ACCRUED CONSULTING FEES

At September 30, 2005, the Company owed certain employees and consultants deferred compensation, accrued consulting fees, other compensation-related liabilities and accrued interest thereon aggregating $2,480,900. Due to financial difficulties experienced by the Company, in August and September 2006, certain employees and consultants to whom the Company owed an aggregate of $3,199,400 forgave approximately 80% of the debt and accepted 5,834,117 shares of the Company's common stock (of which 182,952 were restricted), and warrants and options to purchase an aggregate of 270,638 shares of the Company's common stock at an exercise price of $0.59 per share in full settlement of the Company's remaining obligations. On the date of transfer, the amounts due to employees and consultants exceeded the aggregate estimated fair value (based on an estimate of $0.12 per share) of the shares, warrants and options transferred by $2,467,700. The gain attributable to employees considered related parties of $1,388,000 has been treated as a capital transaction and included in additional paid-in capital in the accompanying financial statements. The remaining gain of $1,079,700 has been recorded as a gain on troubled debt restructuring in the accompanying financial statements.

5. NOTES PAYABLE TO NUPHARM DATABASE, LLC

In connection with the January 2000 Asset Purchase Agreement between the Company and NuPharm Database, LLC (NuPharm) providing for the purchase of a database and the assumption of certain NuPharm liabilities, the Company issued a subordinated note payable to NuPharm in the amount of $299,923 bearing interest at 8% per year and due on March 15, 2004 and a warrant to purchase 2,800,000 shares of the Company's common stock at $0.01 per share. The warrant was not exercised before expiring in 2005.

In October 2006, the Company and NuPharm agreed to exchange the note for a 5% note in the principal amount of $287,423, representing the outstanding principal at September 30, 2006. The note is due and payable on demand five years from the date of issuance, can be prepaid by the Company at any time without penalties and is convertible into shares of common stock of the Company upon the completion of a financing (as defined) at a price per share of the common stock in the financing. Accrued interest on the original note of $119,700 at September 30, 2006 was forgiven by NuPharm in exchange for the issuance of a new warrant to purchase 2,800,000 shares of the Company's common stock at $0.01 per share. Such warrant was exercised in October 2006.

6. CONVERTIBLE PROMISSORY NOTES

The Company has issued convertible promissory notes with detachable warrants from time to time to fund its operations. The notes bear interest at 8% per year, compounded annually, and are payable on demand. The terms of the notes provide for the (i) conversion of principal and accrued interest into the same type of securities issued by the Company upon a qualified institutional financing, the amount of which financing varies between notes and ranges from $1 to $4 million, and (ii) conversion price to be equal to the same price as the shares sold in the financing. The notes provide for an aggregate of $2,196,000 in principal to convert automatically and $920,700 to convert at the

note holders' options based upon certain financing requirements (as defined).

Due to the variable conversion price, the notes were potentially convertible into an unlimited number of common shares. Accordingly, the Company has accounted for the notes under SFAS 133 and EITF 00-19 which require the beneficial conversion feature to be treated as an embedded derivative, recording a liability equal to the estimated fair value of the conversion option. In addition, all non-employee warrants that are exercisable during the period the notes were potentially convertible into an unlimited number of common shares are required to be recorded as liabilities at their fair value. The fair value of the beneficial conversion feature and the warrants were estimated using the Black-Scholes option pricing model. The fair value of the beneficial conversion feature and the warrants and options was recomputed each reporting period with the change in fair value recorded as a gain or loss on derivative instruments.

In August 2006, the Company amended its Articles of Incorporation whereby the number of authorized shares was increased to 100,000,000, of which 80,000,000 are designated as common shares and 20,000,000 are designated as preferred shares.

In October 2006, the Company and the note holders agreed to modify the terms of the original agreements such that all convertible notes and related accrued interest were converted into 6,111,848 shares of the Company's preferred shares and to change the exercise price for warrants to purchase 1,134,078 shares of the Company's common stock to $0.59 per share. The preferred shares are convertible into 6,111,848 shares of the Company's common stock.

Since at September 30, 2006, the number of authorized shares is sufficient to accommodate the conversion of all notes, related accrued interest and outstanding warrants, the Company has reclassified the derivative instrument liability with an estimated fair value of $343,100 to equity in the accompanying financial statements.

7. STOCKHOLDERS' EQUITY (CAPITAL DEFICIENCY)

COMMON AND PREFERRED STOCK

As of September 30, 2006, the Company was authorized to issue 100,000,000 shares of two classes of stock, 80,000,000 of which are designated as common shares and 20,000,000 of which are designated as preferred shares.

During August and September 2006, the Company issued 5,834,117 shares of its common stock with a fair value of $700,800 in connection with the restructuring of certain debt. See Note 4.

There are no shares of Preferred Stock outstanding as of September 30, 2006. In October 2006, the Company issued 6,111,848 shares of its preferred shares in connection with the conversion of notes payable. See Note 6.

STOCK-OPTION PLAN

On August 3, 2006, the Company adopted the CNS Response, Inc. 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 nonstatutory stock options (NSO)), stock appreciation rights and stock unit grants to eligible employees, directors and consultants and is administered by the board of directors. A total of 10 million shares of stock are reserved for issuance under the 2006 Plan. As of September 30, 2006, there were 4,000,403 million options and 183,937 restricted shares outstanding under the 2006 Plan and 5,815,660 shares available for issuance of awards.

The 2006 Plan provides that in any calendar year, no eligible employee or director shall be granted an award to purchase more than 3 million shares of stock. The option price for each share of stock subject to an option shall be (i) no less than the fair market value of a share of stock on the date the option is granted, if the option is an ISO, or (ii) no less than 85% of the fair market value of the stock on the date the option is granted, if the option is a NSO ; provided, however, if the option is an ISO granted to an eligible employee who is a 10% shareholder, the option price for each share of stock subject to such ISO shall be no less than 110% of the fair market value of a share of stock on the date such ISO is granted. Stock options have a maximum

term of ten years from the date of grant, except for ISOs granted to an eligible employee who is a 10% shareholder, in which case the maximum term is five years from the date of grant. ISOs may be granted only to eligible employees.

The Company has adopted SFAS No. 123R (revised 2004), "Share-Based Payment", and related interpretations. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The Company estimates the fair value of each option on the grant date using the Black-Scholes model. The following assumptions were made in estimating the fair value:

Dividend yield	0%
Risk-free interest rate	5.46%
Expected volatility	100%
Expected life	5 years

The expense is recognized over the employees' requisite service period, generally the vesting period of the award. Compensation costs charged to operations in 2006 amounted to $369,900. There were no options issued or outstanding during 2005.

	Number of Shares	Weighted Average Exercise Price
Outstanding at October 1, 2005	--	--
Granted	4,000,403	$ 0.13
Exercised	--	--
Forfeited	--	--
Outstanding at September 30, 2006	4,000,403	$ 0.13
Options exercisable at September 30, 2006	3,980,403	$ 0.13
Weighted average fair value of options granted during 2006		$ 0.09

Following is a summary of the status of options outstanding at September 30, 2006:

Exercise Price	Number of Shares	Average Contractual Life	Average Exercise Price
$ 0.12	859,270	10 years	$ 0.12
$ 0.132	3,112,545	10 years	$ 0.13
$ 0.59	28,588	10 years	$ 0.59

At September 30, 2006, all of the above options are fully vested, except for 20,000 options at an exercise price of $0.12. Such options vest over 12 months.

WARRANTS TO PURCHASE COMMON STOCK

At September 30, 2006, there were warrants outstanding to purchase 3,113,110 shares of the Company's common stock at exercise prices ranging from $0.01 to $0.59 with a weighted average exercise price of $0.28. The warrants expire at various times through 2016.

As described in Note 6, these warrants were initially recorded as a liability at their fair value. Fair value was computed using the Black-Scholes pricing model at each reporting period with the change in fair value recorded as a gain or loss on derivative instruments. For the year ended September 30, 2006, the Company recorded a gain on derivative instruments amounting to $1,178,500. For the year ended

September 30, 2005, the Company recorded a loss on derivative instruments of $212,500. As of September 30, 2006, the warrants were reclassified to equity since the number of authorized shares was increased to accommodate the exercise of all warrants and settlement of warrants was within the control of the Company.

8. INCOME TAXES

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

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

	2006	2005
Federal income tax (benefit) at statuatory rates	34%	(34%)
Non-recognizable (gains) losses from derivative instruments	(483%)	5%
Gain from troubled debt restructured with related parties	566%	0%
Change in valuation allowance	(117%)	29%
State income taxes	1%	0%
Income tax provision	1%	0%

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of deferred taxes relate to the following at September 30, 2006 and 2005:

	2006	2005
Deferred income tax assets:		
Net operating loss carryforward	$ 1,851,000	$ 1,054,300
Deferred interest, consulting and compensation liabilities	462,500	1,410,100
Amortization	215,400	183,400
	2,528,900	2,647,800
Deferred income tax liabilities--other	(34,600)	(81,300)
Deferred income tax asset--net before valuation allowance	2,494,300	2,566,500
Valuation allowance	(2,494,300)	(2,566,500)
Deferred income tax asset--net	$ --	$ --

Current and non-current deferred taxes have been recorded on a net basis in the accompanying balance sheet. As of September 30, 2006 we have net operating loss carryforwards of approximately $4,627,600. The net operating loss carryforwards expire by 2026. Utilization of net operating losses and capital loss carryforwards may be subject to the limitations imposed by Section 382 of the Internal Revenue Code. The Company has placed a valuation allowance against the deferred tax assets in excess of deferred tax liabilities due to the uncertainty surrounding the realization of such excess tax assets. Management periodically evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced accordingly.

9. EARNINGS PER SHARE

In accordance with 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. The number of dilutive common equivalent shares for the year ended September 30, 2006 has been determined in accordance with the treasury-stock method. For the year ended September 30, 2005, 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 is as follows:

<TABLE>
<CAPTION>

	2006	2005
<S>	<C>	<C>
Net income (loss) for computation of basic net income (loss) per share	$ 82,600	$ (1,504,900)
Add interest expense relating to convertible debt	297,800	--
Net income (loss) for computation of dilutive net income (loss) per share	$ 380,400	$ (1,504,900)
Basic net income (loss) per share	$ 0.04	$ (1.25)
Diluted net income (loss) per share	$ 0.01	$ (1.25)
Basic weighted average shares outstanding	1,967,226	1,200,000
Dilutive common equivalent shares	30,533,528	--
Diluted weighted average common shares	32,500,755	1,200,000
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	--	323,086,919
Warrants	1,162,705	2,496,063
Options	3,112,145	

</TABLE>

10. COMMITMENTS AND CONTINGENT LIABILITIES

LITIGATION--The Company is subject to legal proceedings and claims, which arise in the ordinary course of its business. The Company believes that although there can be no assurances as to the disposition of the proceedings, based upon information available to the Company at this time, the expected outcome of these matters would not have a material impact on the Company's results of operations or financial condition.

RENT EXPENSE--The Company leases its headquarters under an operating lease expiring in April 2007 and requiring monthly rentals of $3,000. Total rental expense for the year ended September 30, 2006 and 2005 was $8,300 and $7,600, respectively.

11. SIGNIFICANT CUSTOMERS

For the period ended September 30, 2006, five customers accounted for 75% of the Company's revenue and 29% of accounts receivable at September 30, 2006.

12. RELATED PARTY TRANSACTIONS

Convertible promissory notes to related parties amounted to $1,768,300 and $1,257,000 at September 30, 2006 and 2005, respectively. Accrued interest to related parties amounted to $414,300 and $301,800 at September 30, 2006 and 2005, respectively. Interest expense to related parties amounted to $112,900 and $76,300 for the years ended September 30, 2006 and 2005, respectively.

Consulting expenses to a director amounted to $10,000 and $40,000 for the years ended September 30, 2006 and 2005, respectively.

As described in Note 4, in August 2006 the Company and two of its employees, who are significant shareholders, entered into an agreement whereby the two employees received 4,362,652 shares of the Company's common stock, warrants to purchase 242,050 shares of the Company's common stock at $0.59 per share and options to purchase 28,588 shares of the Company's common stock at $0.59 per share in full settlement of debt aggregating $1,943,100. On the date of transfer, the amounts due to employees exceeded the aggregate fair value (based on an estimate of $0.12 per share) of the shares, warrants and options transferred by $1,388,000. The gain has been treated as a capital transaction and included in additional paid-in capital in the accompanying financial statements.

13. SUBSEQUENT EVENTS

In October 2006, NuPharm (see Note 5) exercised the warrant to purchase 2,800,000 shares of the Company's common stock at a price of $0.01 per share.

In October, 2006, the Company sold 1,905,505 Units in a private financing resulting in net proceeds of $1,924,560. Each Unit consists of one share of Series B Preferred Stock and 5-year warrants to purchase .6 shares of the Company's common stock at $1.51 per share. Holders of the Series B Preferred Stock will be entitled to receive non-cumulative dividends at an annual rate of 4% when, as and if declared by the Board. Each share of the Series B Preferred Stock initially converts into one share of the Company's Common Stock at any time at the option of the holder. However, each share of Series B Preferred Stock will automatically convert into Common Stock at the then applicable conversion rate in the event of (i) the sale of $5,000,000 or more of Common Stock or units consisting of Common Stock and warrants in one or more related transactions; (ii) the closing of an underwritten public offering with a price equal or greater than $1.21 per share and net proceeds to the Company of not less than $5,000,000, or (iii) upon the written consent of the holders of the majority of the Series A Preferred (see below) in the case of conversion of the Series A Preferred or the Series B Preferred in the case of conversion of the Series B Preferred.

In October 2006, the Company and the note holders of certain of the convertible promissory notes described in Note 6 converted promissory notes with an aggregate outstanding balance of $3,061,700 and related accrued and unpaid interest of $1,005,300 at September 30, 2006 into 5,993,515 shares of the Company's Series A Preferred Stock. In addition, the exercise price of warrants to purchase 1,062,116 shares of the Company's common stock was changed to $0.59 per share. The preferred shares are convertible into 5,993,515 shares of the Company's common stock.