As filed with the Securities and
Exchange Commission on May 21, 2007 Registration No. _____

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

FORM SB-2
REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933

CNS RESPONSE, INC.
(Name of Small Business Issuer in its Charter)

DELAWARE	8734	87-0419387
(State or Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S Employer Identification No.)

2755 BRISTOL ST., SUITE 285
COSTA MESA, CA 92626
(714) 545-3288
(Address and Telephone Number of Principal Executive Offices)

2755 BRISTOL ST., SUITE 285
COSTA MESA, CA 92626
(Address of Principal Place of Business or intended Place of Business)

LEONARD BRANDT, CHIEF EXECUTIVE OFFICER
CNS RESPONSE, INC.

2755 BRISTOL ST., SUITE 285
COSTA MESA, CA 92626
(714) 545-3288

Copy to:

SCOTT ALDERTON, ESQ.
STUBBS ALDERTON & MARKILES, LLP
15260 VENTURA BOULEVARD, 20TH FLOOR
SHERMAN OAKS, CALIFORNIA 91403
(818) 444-4500
(Name, Address and Telephone Number of Agent for Service)

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

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [_]

<TABLE>
CALCULATION OF REGISTRATION FEE
<CAPTION>

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AMOUNT TO BE REGISTERED (1)	PROPOSED OFFERING PRICE PER UNIT (2)	AMOUNT OF MAXIMUM AGGREGATE OFFERING PRICE (2)	REGISTRATION FEE
<S> <C>	<C>	<C>	<C>	<C>
Common Stock, par value $.001 per share.....	7,355,199	$ 1.65	$ 12,136,078.35	$ 372.58
Common Stock, par value $.001 per share issuable upon exercise of warrants	2,627,939	$ 1.65	$ 4,336,099.35	$ 133.12

TOTAL	9,983,138	--	$ 16,472,177.70	$ 505.70

</TABLE>

(1) In the event of a stock split, stock dividend, or other similar transaction involving the Registrant's common stock, in order to prevent dilution, the number of shares registered shall automatically be increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-the-Counter Bulletin Board on May 17, 2007.

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

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Subject to Completion, Dated May 21, 2007

CNS RESPONSE, INC.

9,983,138 SHARES COMMON STOCK

This prospectus relates to the offer and sale from time to time of up to 9,983,138 shares of our common stock that are held by the stockholders named in the "Selling Stockholders" section of this prospectus. The prices at which the selling stockholders may sell the shares in this offering will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive any of the proceeds from the sale of the shares. We will bear all expenses of registration incurred in connection with this offering. The selling stockholders whose shares are being registered will bear all selling and other expenses.

Our common stock is quoted on the Over-The-Counter Bulletin Board under the symbol "CNSO.OB." On May 17, 2007, the last reported sales price of the common stock on the Over-The-Counter Bulletin Board was $1.65 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____

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You should rely only on the information contained in this prospectus or any supplement. We have not authorized anyone to provide information that is different from that contained in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Except as otherwise indicated, information in this prospectus reflects a one-for-fifty reverse stock split of our common stock which took effect on January 10, 2007.

PROSPECTUS SUMMARY

THIS SUMMARY HIGHLIGHTS SELECTED INFORMATION CONTAINED IN GREATER DETAIL ELSEWHERE IN THIS PROSPECTUS. THIS SUMMARY DOES NOT CONTAIN ALL THE INFORMATION YOU SHOULD CONSIDER BEFORE INVESTING IN OUR COMMON STOCK. YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY BEFORE MAKING AN INVESTMENT DECISION, INCLUDING "RISK FACTORS" AND THE CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES. REFERENCES IN THIS PROSPECTUS TO "CNS RESPONSE, INC," THE "COMPANY," "WE," "OUR" AND "US" REFER TO CNS RESPONSE, INC. AND OUR CONSOLIDATED SUBSIDIARY.

OUR BUSINESS

We are a life sciences company focused on the commercialization of a patented system that guides psychiatrists and other 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.

In addition, rEEG provides us with significant opportunities in the area of pharmaceutical development. Using the rEEG methodology in combination with our proprietary outcomes database, we believe we have the potential to identify new uses for existing drugs and drug combinations. We intend to enter into relationships with established drug and biotechnology companies to further explore these opportunities.

OUR HISTORY AND CONTACT INFORMATION

Our company was originally incorporated on July 10, 1984, under the name Mammon Oil & Gas, Inc. in the state of Utah. In February 1986, our shareholders approved proposals to change our business direction to the business of health care including research, development and marketing, and a name change to Volt Research, Inc. From August 1986 to August 1988, we engaged in operating clinics dedicated to Retin-A skin therapy. In August 1988, our management decided to phase out our clinic operations and concentrate on selling our expertise and skin care products directly to physicians. On January 1, 2004, we discontinued our business activities and operations and, since that date until our acquisition of NBD Marketing, Inc., ProspectWorks, Inc., SalesWare, Inc. and xSellsys, Inc. (collectively "Acquired Companies") in June 2004, we had no revenues or earnings from operations.

In a series of transactions consummated in June 2004, we acquired all of the outstanding capital stock of NBD Marketing, Inc., a California corporation, or NBD, and SalesWare Inc., a Nevada corporation, or SalesWare, and formed an acquisition subsidiary, xSellsys, Inc., a California corporation to acquire substantially all of the assets and liabilities of CRM SalesWare, Inc., a California corporation. As a result of the consummation of the above transactions, SalesWare, NBD, and xSellsys became our wholly-owned subsidiaries and ProspectWorks, Inc., a Nevada corporation and a subsidiary of NBD, ProspectWorks, became an indirect, wholly-owned subsidiary of the Company. In connection with the acquisition of SalesWare, Inc., on August 2, 2004, we changed our corporate name to "SalesTactix, Inc."

On October 6, 2004, the Acquired Companies, William Noonan, Vincent Michael Keyes III, and Thomas Ketchum filed a complaint in Orange County Superior Court, Case No. 04CC00669 against us, Scott Absher, George LeFevre and Mark Absher. On November 15, 2004, we entered into a settlement agreement with the plaintiffs whereby (i) the acquisition agreements by and among the parties were rescinded including an asset purchase agreement and certain stock purchase agreements; (ii) certain assets

owned by SalesTaxtix, Inc. and xSellsys were transferred to certain plaintiffs; (iii) certain trademarks and tradenames were transferred to CRM SalesWare; and (iv) our outstanding shares owned by the plaintiffs were canceled. The Settlement Agreement essentially unwound the acquisition and restored the parties to their prior positions, as if the acquisitions had never occurred. The claim was dismissed in the fourth quarter of 2004 pursuant to the terms of the settlement agreement. In connection with the settlement agreement, we changed our name to Strativation, Inc. in September 2005.

As a result of our lack of revenue generation and the rescission of the acquisition, we reassessed our business plan and determined to seek out other business opportunities capable of increasing stockholder value.

On July 18, 2006, we entered into a stock purchase agreement with seventeen accredited investors pursuant to which we issued 3,800,000 shares of our common stock (76,000 shares of our common stock after taking into account our 1-for-50 reverse stock split which became effective on January 10, 2007) in consideration for an aggregate of $237,669.00 in cash. In addition, these investors acquired shares in private transactions with certain of our stockholders, and acquired a majority stake in our issued and outstanding shares. In connection with these transactions, effective July 18, 2006, Mr. Scott Absher and Mr. George LeFevre resigned as officers and members of the board of directors, and Mr. Silas Philips was appointed our Chief Executive Officer, Chief Financial Officer, Secretary, and sole director.

On March 7, 2007, we acquired CNS Response, Inc., a California corporation ("CNSR California") through a merger of CNSR California with a wholly-owned subsidiary that we formed for the purpose of facilitating this transaction. Upon the closing of this merger transaction, CNSR California became our wholly-owned subsidiary, and we changed our name to CNS Response, Inc. The merger was accounted for as a "reverse acquisition," and for accounting purposes, CNSR California was demed to be the "accounting acquirer" in the "reverse acquisition."

In addition, in connection with the closing of the merger with CNSR California, we received gross proceeds of approximately $7.8 million in a private placement with institutional investors and other high net worth individuals. Pursuant to subscription agreements entered into with these investors, we sold 6,504,765 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. After broker commissions and expenses and legal and other expenses, we received net proceeds of approximately $6.9 million in the private placement financing.

In connection with the private placement, 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 financing. This prospectus is part of a registration statement on Form SB-2 that we filed pursuant to the terms of our agreement with the investors in the private placement financing. The registration statement on Form SB-2 and this prospectus also covers the resale of common stock held by other security holders named in the "Selling Stockholders" section of this prospectus.

The address of our principal executive office is 2755 Bristol St., Suite 285, Costa Mesa CA 92626, and our telephone number is (714) 545-3288.

THE OFFERING

Common stock offered.....	Up to 9,983,138 shares by the selling stockholders
Common stock outstanding before this offering.....	25,303,302 shares
Common stock to be outstanding after this offering.....	Up to 27,931,241 shares
Use of proceeds.....	We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders. See "Use of Proceeds."
Over-the-Counter Bulletin Board symbol.....	CNSO.OB
Risk Factors.....	See "Risk Factors" beginning on page 4 for a discussion of factors that you should consider carefully before deciding to purchase our common stock.

In the table above, the number of shares to be outstanding after this offering is based on 25,303,302 shares outstanding as of May 17, 2007, and assumes the issuance to the selling stockholders of the following additional shares which are being offered for sale under the prospectus:

- 2,627,939 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of $1.73 per share.

In the table above, the number of shares to be outstanding after this offering does not reflect the issuance of the following shares, which are not being offered for sale under this prospectus:

- 8,407,517 shares of common stock reserved for issuance upon exercise of warrants and options, as of May 17, 2007.

RISK FACTORS

INVESTING IN CNS RESPONSE, INC. INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS PROSPECTUS BEFORE PURCHASING OUR COMMON STOCK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING US. ADDITIONAL RISKS AND UNCERTAINTIES THAT WE ARE UNAWARE OF, OR THAT WE CURRENTLY DEEM IMMATERIAL, ALSO MAY BECOME IMPORTANT FACTORS THAT AFFECT US. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS, FINANCIAL CONDITION OR RESULTS OF OPERATIONS COULD BE MATERIALLY AND ADVERSELY AFFECTED. IN THAT CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MAY LOSE SOME OR ALL OF YOUR INVESTMENT.

RISKS RELATING TO OUR BUSINESS

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

CNS Response, Inc., a California Corporation and the operating subsidiary of CNS Response, Inc., a Delaware corporation (collectively, "we", "us", "our", "the company"), was incorporated in 2000. As a result of our 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 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 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 among our employees.

- changes in management.
- the introduction of products or services that are viewed in the marketplace as substitutes for the services we provide.
- communications published by industry organizations or other professional entities in the psychiatric and physician community that are unfavorable to our business.
- the introduction of regulations which impose additional costs on or impede our business.
- 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.

IF WE EXPAND OUR OPERATIONS MORE AGGRESSIVELY THAN WE ANTICIPATE, WE WILL 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 and our cash on hand. 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 than we currently anticipate, we may need additional capital sooner than anticipated for this purpose. In addition, we may need additional funds sooner than anticipated 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 services and/or products.

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, individuals seeking treatment for behavioral health disorders may seek alternative treatment methods, which could negatively impact our sales and profitability.

OUR rEEG TECHNOLOGY MAY NOT BE AS USEFUL AS WE BELIEVE IT TO BE, WHICH COULD LIMIT OR PREVENT US FROM GROWING OUR REVENUES.

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

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 rEEG Analytical Reports 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 rEEG Analytical Reports. Marketplace acceptance of our rEEG Analytical reports 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 rEEG technology 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 rEEG Analytical Reports 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 rEEG Analytical Reports, 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 rEEG Analytical Reports, or our failure or inability to maintain our commitment to the behavioral health market and our other marketing and product promotion efforts could damage our current relationships, or prevent us from

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

To sell our rEEG Analytical Reports, psychiatric professionals must recommend and endorse them. We may not obtain the necessary recommendations or endorsements from this community. Acceptance of our rEEG Analytical Reports depends on educating psychiatrists and physicians as to the benefits, clinical efficacy, ease of use, revenue opportunity, and cost-effectiveness of our rEEG Analytical Reports 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 rEEG Analytical Reports, 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 rEEG Analytical Reports as not offering the benefits which we believe they offer, we may receive significant negative publicity. This publicity may result in litigation and increased regulation and governmental review. If we were to receive such negative publicity or unfavorable media attention, whether warranted or unwarranted, our ability to market our rEEG Analytical Reports would be adversely affected, pharmaceutical companies may be reluctant to pursue strategic initiatives with us relating to the development of new products and services based on our rEEG technology, we may be required to change our products and services and become subject to increased regulatory burdens, and we may be required to pay large judgments or fines. 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 rEEG Analytical Reports 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 into clinical trials,
- lower than anticipated retention rates of patients 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 employees to market and promote our rEEG Analytical Reports. In the event that we experience high turnover among our employees, and new employees do not acquire the skills to sell our rEEG Analytical Reports 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 rEEG Analytical Reports 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 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 rEEG Analytical Reports.

In addition, we have maintained a small financial and accounting staff, and our reporting obligations as a public company, as well as our need to comply with the requirements of the Sarbanes-Oxley Act of 2002, and the rules and regulations of the SEC will continue to place significant demands on our financial and accounting staff, on our financial, accounting and information systems and on our internal controls. As we grow, we will need to add additional accounting staff and continue to improve our financial, accounting and information systems and internal controls in order to fulfill our reporting responsibilities and to support expected growth in our business. Our current and planned personnel, systems, procedures and controls may not be adequate to support our anticipated growth or management may not be able to effectively hire, train, retain, motivate and manage required personnel. Our failure to manage growth effectively could limit our ability to achieve our marketing and commercialization goals or to satisfy our reporting and other obligations as a public company.

WE MAY 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 rEEG ANALYTICAL REPORTS, REGULATIONS ARE CONSTANTLY CHANGING, AND IN THE FUTURE OUR BUSINESS MAY BE SUBJECT TO REGULATION.

Currently, we do not believe that sales of our rEEG Analytical Reports are subject to regulatory approval. However, federal, state and foreign laws and regulations relating to the sale of our rEEG Analytical Reports are subject to future changes, as are administrative interpretations of regulatory agencies. If we fail to comply with applicable federal, state or foreign laws or regulations, we could be subject to enforcement actions, including injunctions 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 in order to sell our rEEG Analytical Reports. 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 rEEG Analytical Reports 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 do not carry key man life insurance on any of our 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 rEEG Analytical Reports, involve the risk of serious injury or death. While we do not treat patients or determine whether treatment that is guided by rEEG Analytical Reports 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 rEEG Analytical Reports, our business entails an inherent risk of claims for personal injuries, which are subject to the attendant risk of substantial damage awards. We cannot control whether individual physicians and psychiatrists will properly select patients, apply the appropriate standard of care, or conform to our procedures in determining how to treat their patients. A significant source of potential liability is negligence or alleged negligence by physicians treating patients with the aid of the rEEG Analytical Reports that we provide. There can be no assurance that a future claim or claims will not be successful or, including the cost of legal defense, will not exceed the limits of available insurance coverage.

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

IF GOVERNMENT AND THIRD-PARTY PAYERS FAIL TO PROVIDE COVERAGE AND ADEQUATE PAYMENT RATES FOR TREATMENTS THAT ARE GUIDED BY OUR rEEG ANALYTICAL REPORTS, 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 rEEG Analytical Reports to guide the treatment of their patients. Such third-party payers include government health programs such as Medicare and Medicaid, managed care providers, private health insurers and other organizations. These third-party payers are increasingly attempting to contain healthcare costs by demanding price discounts or rebates and limiting both coverage on which procedures they will pay for and the amounts that they will pay for new procedures. As a result, they may not cover or provide adequate payment for treatments that are guided by our rEEG Analytical Reports, 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 rEEG ANALYTICAL REPORTS.

We are focused on the market for behavioral health disorders. The projected demand for our rEEG Analytical Reports could materially differ from actual demand if our assumptions regarding this market and its trends and acceptance of our rEEG Analytical Reports 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 rEEG Analytical Reports, to comply with these healthcare laws and regulations could create liability for us and negatively impact our business.

In addition, the FDA, regulates development, testing, labeling, manufacturing, marketing, promotion, distribution, record-keeping and reporting requirements for prescription drugs. Compliance with laws and regulations enforced by the FDA and other regulatory agencies may be required in relation to future products or services developed or used by us. 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 rEEG Analytical Reports, 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 rEEG Analytical Reports, 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 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. We have 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 up to 6,504,765 shares sold in the Private Placement, up to 2,627,939 shares of our Common Stock underlying warrants that were issued in our Private Placement, 83,333 shares issued to the placement agent of the Private Placement and up to 767,101 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 California 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 83% 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 83% 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains "forward-looking statements" that include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new products or services; our statements concerning litigation or other matters; statements concerning projections, predictions, expectations, estimates or forecasts for our business, financial and operating results and future economic performance; statements of management's goals and objectives; trends affecting our financial condition, results of operations or future prospects; our financing plans or growth strategies; and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future

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

- our inability to raise additional funds to support operations and capital expenditures;
- our inability to achieve greater and broader market acceptance of our products and services in existing and new market segments;
- our inability to successfully compete against existing and future competitors;
- our inability to manage and maintain the growth of our business;
- our inability to protect our intellectual property rights; and
- other factors discussed under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business."

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

CORPORATE BACKGROUND AND MERGER TRANSACTION

CORPORATE HISTORY

CNS Response, Inc., a Delaware corporation, was originally incorporated on July 10, 1984, under the name Mammon Oil & Gas, Inc. in the state of Utah. In February 1986, our shareholders approved proposals to change our business direction to the business of health care including research, development and marketing, and a name change to Volt Research, Inc. From August 1986 to August 1988, we engaged in operating clinics dedicated to Retin-A skin therapy. In August 1988, our management decided to phase out our clinic operations and concentrate on selling our expertise and skin care products directly to physicians. On January 1, 2004, we discontinued our business activities and operations and, since that date until our acquisition of NBD Marketing, Inc., ProspectWorks, Inc., SalesWare, Inc. and xSellsys, Inc. (collectively "Acquired Companies") in June 2004, we had no revenues or earnings from operations.

In a series of transactions consummated in June 2004, we acquired all of the outstanding capital stock of NBD Marketing, Inc., a California corporation, or NBD, and SalesWare Inc., a Nevada corporation, or SalesWare, and formed an acquisition subsidiary, xSellsys, Inc., a California corporation to acquire substantially all of the assets and liabilities of CRM SalesWare, Inc., a California corporation. As a result of the consummation of the above transactions, SalesWare, NBD, and xSellsys became our wholly-owned subsidiaries and ProspectWorks, Inc., a Nevada corporation and a subsidiary of NBD, ProspectWorks, became an indirect, wholly-owned subsidiary of the Company. In connection with the acquisition of SalesWare, Inc., on August 2, 2004, we changed our corporate name to "SalesTactix, Inc."

On October 6, 2004, the Acquired Companies, William Noonan, Vincent Michael Keyes III, and Thomas Ketchum filed a complaint in Orange County Superior Court, Case No. 04CC00669 against us, Scott Absher, George LeFevre and Mark Absher. On November 15, 2004, we entered into a settlement agreement with the plaintiffs whereby (i) the acquisition agreements by and among the parties were rescinded including an asset purchase agreement and certain stock purchase agreements; (ii) certain assets owned by SalesTaxtix, Inc. and xSellsys were transferred to certain plaintiffs; (iii) certain trademarks and tradenames were transferred to CRM SalesWare; and (iv) our outstanding shares owned by the plaintiffs were canceled. The Settlement Agreement essentially unwound the acquisition and restored the parties to their prior positions, as if the acquisitions had never occurred. The claim was dismissed in the fourth quarter of 2004 pursuant to the terms of the settlement agreement. In connection with the settlement agreement, we changed our name to Strativation, Inc. in September 2005. After this time, we existed as a "shell company" with nominal assets whose

sole business was to identify, evaluate and investigate various companies to acquire or with which to merge.

On July 18, 2006, we entered into a stock purchase agreement with seventeen accredited investors pursuant to which we issued 3,800,000 shares of our common stock (76,000 shares after accounting for our one-for-fifty reverse stock split which became effective on January 10, 2007) in consideration for an aggregate of $237,669.00 in cash. In addition, these investors acquired shares in private transactions with certain of our stockholders, and acquired a majority stake in our issued and outstanding shares. In connection with these transactions, effective July 18, 2006, Mr. Scott Absher and Mr. George LeFevre resigned as officers and members of the board of directors, and Mr. Silas Philips was appointed our Chief Executive Officer, Chief Financial Officer, Secretary, and sole director.

On January 11, 2007, we entered into a Shares For Debt Agreement (the "Shares For Debt Agreement") with Richardson & Patel LLP ("R&P"), pursuant to which we agreed to issue and R&P agreed to accept 645,846 restricted shares of our 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 we 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 (the "Amended and Restated 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 our common stock.

MERGER WITH CNS RESPONSE, INC.

On January 16, 2007, we entered into an Agreement and Plan of Merger with CNS Response, Inc., a California corporation (or CNSR California), and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary that was formed to facilitate the acquisition of CNSR California. On March 7, 2007, the merger with CNSR California closed, CNSR California became our wholly-owned subsidiary, and we changed our 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. Pursuant to the merger agreement, our former sole director and executive officer, Silas Phillips, resigned as a director and executive officer of our company effective as of the closing of the Merger, and the directors and officers of CNSR California were appointed to serve as directors and officer of our company. 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. Following the Merger, the business conducted by the company is the business conducted 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 FINANCING

On March 7, 2007, simultaneous with the closing of the Merger, we received gross proceeds of approximately $7.0 million from the first closing of 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 5,840,375 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"). On May 16, 2007, we completed a second closing of the Private Placement for an additional 664,390 Investment Units. The additional gross proceeds to us amounted to $797,300.

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 75 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 $6.9 million 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 83,333 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 $624,500 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 (520,381 warrants at an exercise price of $1.44 per share), and (ii) 8% of the shares underlying the Investor Warrants sold by Brean Murray in the Private Placement (156,114 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 $87,700 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 75 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. 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 767,101 shares of our common stock on the Registration Statement described above. 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 September 7, 2007, and demand registration rights with respect to such shares effective March 7, 2008.

This prospectus relates to the resale of common stock and common stock underlying warrants issued in connection with the Private Placement financing that closed concurrently with the merger, as well as shares of our common stock

(i) held by our majority stockholders prior to the Merger and (ii) issuable upon exercise of the Placement Agent Warrants or otherwise under the Engagement Agreement with the Placement Agent. Pursuant to our obligations under the subscription agreements between us and the investors in the private placement financing, we filed with the SEC a registration statement on Form SB-2 with respect to the common stock offered by this prospectus.

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. 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 1,143,587 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, former counsel to Strativation, Inc. (now CNS Response, Inc.) and our largest shareholder immediately prior to the Merger, in connection with the Merger upon the first closing of the Private Placement.

CNS RESPONSE, INC. STOCKHOLDER INDEMNIFICATION

Under the terms of the Merger Agreement and an arrangement with our majority shareholders 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 $299,900 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 $287,400 (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 244,509 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 cash 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. Subsequently, NuPharm distributed its shares of our common stock to the following stockholders: Stephen C. Suffin, Meyer L. Proler, W. Hamlin Emory, Masco, a California corporation, Carlton M. Cadwell and John Cadwell.

RESULT OF THE MERGER AND PRIVATE PLACEMENT TRANSACTIONS

After the completion of the Private Placement and the Merger, we have an aggregate of 25,303,302 shares of common stock outstanding, with the former CNSR California shareholders and the investors in the Private Placement owning in the aggregate 24,434,479 shares of our common stock, which represents approximately 96.6% of our issued and outstanding shares of common stock. Our

stockholders immediately prior to the Merger and Private Placement owned approximately 3.4% 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.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares to be offered by the selling stockholders. The proceeds from the sale of each selling stockholder's common stock will belong to that selling stockholder.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

COMMON STOCK

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.

FISCAL YEAR 2005	HIGH	LOW
January 1 to March 31	$ 0.10 ($5.00*)	$0.045 ($2.25*)
April 1 to June 30	$ 0.10 ($5.00*)	$0.035 ($1.75*)
July 1 to September 30	$0.065 ($3.25*)	$ 0.03 ($1.50*)

FISCAL YEAR 2006	HIGH	LOW
October 1 to December 31	$ 0.09 ($4.50*)	$0.036 (1.80*)

January 1 to March 31	$ 0.07 ($3.50*)	$ 0.06 ($3.00*)
April 1 to June 30	$ 0.08 ($4.00*)	$ 0.06 ($3.00*)
July 1 to September 30	$ 0.17 ($8.50*)	$ 0.07 ($3.50*)

FISCAL YEAR 2007	HIGH	LOW
October 1 to December 31.....	$ 0.17 ($8.50*)	$ 0.01 (0.50*)
January 1 to March 31.....	$ 4.50*	$ 0.101*

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

On May 17, 2007, the closing sales price of Common Stock as reported on the OTC Bulletin Board was $1.65 per share. As of May 17, 2007, there were approximately 375 holders of record of our Common Stock. Our transfer agent is American Stock Transfer and Trust Company.

DIVIDENDS

We have not paid or declared cash distributions or dividends on our common stock. CNSR California has never paid dividends on its common stock. We do not intend to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all earnings, if and when generated, to finance our operations. The declaration of cash dividends in the future will be determined by the board of directors based upon our earnings, financial condition, capital requirements and other relevant factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS DISCUSSION SUMMARIZES THE SIGNIFICANT FACTORS AFFECTING THE OPERATING RESULTS, FINANCIAL CONDITION AND LIQUIDITY AND CASH FLOWS OF CNS RESPONSE, INC. FOR THE SIX MONTHS ENDED MARCH 31, 2007 AND 2006, AND FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005. THE FOLLOWING DISCUSSION OF OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION SHOULD BE READ TOGETHER WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS INCLUDED ELSEWHERE IN THIS PROSPECTUS AND OTHER INFORMATION INCORPORATED BY REFERENCE IN THIS PROSPECTUS, IF ANY. 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. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED IN ANY FORWARD-LOOKING STATEMENTS AS A RESULT OF A VARIETY OF FACTORS, INCLUDING THOSE DISCUSSED IN "RISK FACTORS," AND ELSEWHERE IN THIS PROSPECTUS.

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 (the "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-EEG ("rEEG"), 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 (our "rEEG Analytical 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 March 31, 2007, we had an accumulated deficit of $9.5 million. We incurred operating losses of $1,470,000 for the six months ended March 31, 2007. 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.

Our historical operations before March 7, 2007 reflect only the operations of CNS Response, Inc., a California corporation (or CNSR California). Before March 7, 2007, we existed as a "shell company" with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merger. On March 7, 2007, we consummated a merger transaction in which we acquired all of the shares of CNSR California. Concurrently with the closing of the merger we completed a private placement financing and certain other transactions related to the merger. Upon completion of the merger and the private placement financing, CNSR California became our wholly-owned subsidiary, and the former stockholders of CNSR California and the investors in the private placement financing received in the aggregate 24,434,479 shares of our common stock, or approximately 96% of our issued and outstanding shares of common stock. CNSR California was formed and commenced its business in 2000. Our merger with CNSR California was accounted for as a reverse merger with CNSR California deemed to be the accounting acquirer and us the legal acquirer.

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 prospectus. 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. Pursuant to SFAS No. 123(R), 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.

COMPARISON OF SIX MONTHS ENDED MARCH 31, 2007 AND SIX MONTHS ENDED MARCH 31, 2006

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

	SIX MONTHS ENDED MARCH 31, 2007	SIX MONTHS ENDED MARCH 31, 2006
Revenues	100 %	100 %
Cost of revenues	68	88
Gross profit	32	12
Research and development	400	238
Sales and marketing	42	83
General and administrative expenses	776	310
Operating loss	(1286)	(719)
Other expense, net	1187	619
Net loss	(1304)%	(809)%

REVENUES

	SIX MONTHS ENDED MARCH 31,		PERCENT
	2007	2006	CHANGE
Revenues	$ 112,700	$ 85,800	31%

The increase in revenues resulted from the adoption of rEEG by an additional eleven physicians. The number of rEEG Analytical Reports delivered during the sixth month period ended March 31, 2007 increased from 215 in 2006 to 300 in 2007 while the average price per report dropped from $400 to $375. We do not intend to expand our sales and marketing efforts until the completion of a clinical study currently being conducted by respected professionals in the field of psychiatry. Accordingly, we anticipate that revenues will not increase materially until fiscal 2008.

COST OF REVENUES

	SIX MONTHS ENDED MARCH 31,		PERCENT
	2007	2006	CHANGE

Cost of revenues.....	$ 76,600	$ 75,700	1%

Cost of revenues consists of payroll costs, consulting costs, charges relating to the amortization of the CNS Database, and other miscellaneous charges. Cost of revenues remained flat for the six month period ended March 31, 2007 as compared to the six month period ended March 31, 2006, with increases in payroll costs and consulting costs being offset by a decrease in amortization costs associated with the CNS Database. We expect costs of revenues will increase as an absolute number as we deliver more rEEG Analytical Reports. However, we expect cost of revenues to decrease as a percentage of revenues as we improve our operating efficiency.

RESEARCH AND DEVELOPMENT

	SIX MONTHS ENDED MARCH 31,		
	2007	2006	PERCENT CHANGE
Research and development.....	$ 451,200	$ 204,200	121%

Research and development expenses consist of clinical studies, costs to identify indications of approved drugs and drug candidates, projects for training doctors in the use of rEEG, consulting fees, payroll costs, expenses related to database enhancements, and other miscellaneous costs. Research and development costs increased for the six month period ended March 31, 2007 from the six month period ended March 31, 2006 primarily as a result of increases in expenses associated with clinical studies, costs incurred to identify indications of approved drugs and drug candidates, expenses in relation to projects for training doctors in the use of rEEG technology, and payroll costs. The increase in expenses relating to clinical studies is attributable to our expansion and acceleration of the completion of a clinical study with the goal of driving market acceptance of our rEEG technology. Training costs increased as the Company undertook projects to improve its training capabilities. Payroll costs increased as we hired an additional

employee in research and development and increased the salary of an existing employee. We expect research and development expenses to continue to increase as we attempt to accelerate 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

	SIX MONTHS ENDED MARCH 31,		
	2007	2006	PERCENT CHANGE
Sales and marketing.....	$ 47,500	$ 71,300	(33%)

For the six months ended March 31, 2007, sales and marketing expenses were $47,500 consisting of payroll costs of $37,700 and other marketing costs of $9,800. For the six months ended March 31, 2006 sales and marketing expenses were $71,300 consisting solely of payroll costs. The decrease in payroll costs is attributable to the termination of a salesperson in April 2006. We expect sales and marketing expenses to increase substantially as we increase our marketing efforts and expand our sales force.

GENERAL AND ADMINISTRATIVE EXPENSES

	SIX MONTHS ENDED MARCH 31,		
	2007	2006	PERCENT CHANGE
General and administrative expenses.....	$ 874,700	$ 265,900	229%

General and administrative expenses for the six months ended March 31, 2007 and 2006 primarily related to salaries and professional fees. As a percentage of net sales, general and administrative expenses increased from 310% for the six months ended March 31, 2006 to 776% for the six months ended March 31, 2007. The increase in general and administrative expenses for the six month period ended March 31, 2007 primarily related to a $475,000 advisory fee paid to Richardson & Pattel, LLP in connection with our merger transaction, and will not recur. General and administrative costs were also higher for the six month period ended March 31, 2007 as we hired our Chief Financial Officer as well as an office manager. Legal and accounting costs also increased as the result of costs incurred in connection with the merger and as a result of costs associated with being a public reporting company. Rent increased as the company moved to larger facilities in October 2006. Insurance expenses also increased as a result of higher premiums on our insurance policy for directors and officers, as did miscellaneous expenses. The increase in general and administrative expenses was

offset by a decrease in consulting fees since we outsourced fewer tasks in the period. We expect general and administrative costs to continue to increase as we expand our staff and incur costs associated with being a public reporting company, including costs associated with filing our Registration Statement on Form SB-2, which we expect to occur in the third quarter.

INTEREST EXPENSE

	SIX MONTHS ENDED MARCH 31,		
	2007	2006	PERCENT CHANGE
Interest (Income) Expense.....	$ 193,200	$ 163,000	18%

For the six months ended March 31, 2007, interest expense was $193,200 and consisted of $189,800 relating to interest expense from the ascribed value of a warrant issued to NuPharm Database, LLC, interest expense from promissory notes and other interest bearing accounts of $13,300 offset by interest income of $9,900. For the six months ended March 31, 2006 interest expense was $163,000 and consisted of interest expense form promissory notes and other interest bearing accounts of $163,200 offset by interest income of $200. Interest expense relating to the warrant will not recur as the entire balance of unamortized prepaid interest was expensed in connection with our merger. We expect interest expense relating to convertible debt and other interest bearing accounts to continue to decrease as substantially all convertible debt and other interest bearing accounts have either been repaid or converted into the Company's stock. We expect interest income to increase due to funds available from the private placement.

OTHER INCOME

	SIX MONTHS ENDED MARCH 31,		
	2007	2006	PERCENT CHANGE
Other Income.....	$ 61,700	$ 0	*

* Not meaningful

Other income for the six months ended March 31, 2007 was $61,700 and consisted of gains from settlement of payables. Other income for the six months ended March 31, 2006 was zero. The increase in other income is attributable to the settlement of accounts payable at a discount to the recorded amounts.

NET LOSS

	SIX MONTHS ENDED MARCH 31,		
	2007	2006	PERCENT CHANGE
Net loss.....	$ (1,469,600)	$ (694,300)	112%

Our increase in net loss is due primarily to the advisory fee of $475,000 paid to Richardson & Pattel, LLP in connection with our merger transaction, increases in our research and development costs, increases in other general and administrative expenses, as well as our interest expenses. Our net loss as a percentage of net sales for the six months ended March 31, 2007 increased to 1304% as compared to 809% of net sales for the six months ended March 31, 2006. We expect to incur net losses for the next few years as we continue to improve our rEEG technology and reaffirm its validity through clinical studies, attempt to accelerate the identification of approved drugs and drug candidates, increase the penetration of our products in the marketplace, and hire additional personnel.

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

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

	YEAR ENDED SEPTEMBER 30,	
	2006	2005
Revenues	100%	100%
Cost of revenues	100	129
Research and development	44	46
Sales and marketing	21	42

General and administrative expenses	952	637
Total operating expenses	1117	854
Operating loss	(1017)	(754)
Other income (expense)		
Interest expense, net	(223)	(260)
Gain (loss) on derivative instruments	672	(167)
Gain on troubled debt restructuring	615	--
Total other income (expense)	1064	(426)
Income (Loss) before income taxes	48	(1181)
Income taxes	1	1
Net income (loss)	47%	(1181)%

REVENUES

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Revenues	$ 175,500	$ 127,400	38%

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Cost of revenues.....	$ 175,900	$ 165,100	7%

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Research and development.....	$ 76,700	$ 58,500	31%

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Sales and marketing.....	$ 36,000	$ 52,900	(32%)

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
General and administrative expenses	$ 1,671,100	$ 811,800	106%

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Interest (Income) Expense	$ 390,600	$ 330,700	18%

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Gain (loss) on derivative instruments	$ 1,178,500	$ (212,500)	*

* Not meaningful

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

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Gain on troubled debt restructuring	$ 1,079,700	$ 0	*

* Not meaningful

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.

NET INCOME (LOSS)

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2006	2005	CHANGE
Net loss.....	$ 82,600	$ (1,504,900)	*

*Not meaningful

The decrease in net loss is due primarily to the gains on troubled debt restructuring and on derivative instruments offset by increases in general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2007, we had cash and cash equivalents of approximately $6.4 million and a working capital balance of approximately $3.7 million. As of March 31, 2006, we had cash and cash equivalents of approximately $205,000 and a working capital deficit of approximately $5.4 million. Our positive cash balance results primarily from financing activities. Through March 31, 2007, we have 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, $1.9 million from the sale of preferred stock, and $6.1 million from the sale of common stock to institutional investors and other high net worth individuals.

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 believe that our existing cash and cash equivalents will be sufficient to fund our minimum working capital and capital expenditure needs for at least the next twelve months. However, if our working capital requirements or capital expenditures are greater than we expect, or if we expand our business by acquiring complementary businesses or assets, we may need to raise additional debt or equity financing. We are continually evaluating various financing strategies to be used to expand our business and fund future growth. There can be no assurance that additional debt or equity financing will be available on acceptable terms or at all. We currently do not have any material commitments for capital expenditures.

OPERATING ACTIVITIES

For the six months ended March 31, 2007, net cash used in operating activities was $1.6 million and consisted of net loss of $1.5 million and net cash used by operating assets and liabilities of $0.3 million offset by non-cash items of $0.2 million. Operating assets and liabilities consisted primarily of increases in accounts receivables and prepaid expenses and decreases in accounts payable. Non-cash items consisted primarily of non-cash interest expense offset by other income.

For the six months ended March 31, 2006, net cash used in operating activities was $243,200 and consisted of net loss of $694,300 offset by net cash provided by operating assets and liabilities of $411,200, offset by non cash items of $39,900. Operating assets and liabilities consisted primarily of increases in accounts payable, accrued liabilities, deferred compensation, accrued consulting and accrued interest.

In fiscal 2006, net cash used in operating activities was $597,600 and consisted of net income of $82,600, and cash provided by operating assets and liabilities of $1.1 million offset by non-cash items of $1.8 million. Operating assets and liabilities consisted primarily of increases in accounts payable, accrued liabilities, deferred compensation, accrued consulting and accrued interest. Non-cash items consisted of gains on derivative instruments of $1.1

million and gains on troubled-debt restructuring of $1.1 million offset by stock-based compensation of $369,900 and amortization of intangibles of $79,800.

In fiscal 2005, net cash used in operating activities was $233,000 and consisted of net loss of $1.5 million offset by cash provided by operating assets and liabilities of $961,600 and non-cash items of $310,300. Operating assets and liabilities consisted primarily of increases in accounts payable, accrued liabilities, deferred compensation, accrued consulting and accrued interest. Non-cash items consisted primarily of a loss on derivative instrument of $212,500 and amortization of intangibles of $79,800

INVESTING ACTIVITIES

For the six months ended March 31, 2007, net cash used in investing activities was $7,100 and consisted of a loan to employee and an increase in deposits. For the six months ended March 31, 2006, there were no investing activities.

In fiscal 2006, net cash used in investing activities was $175,900 and consisted of loans to officer and employees. In fiscal 2005, there were no investing activities.

FINANCING ACTIVITIES

For the six months ended March 31, 2007, net cash provided by financing activities was $7.8 million and consisted primarily of proceeds from the sale of preferred stock of $1.7 million and from the sale of common stock of $6.1 million. For the six months ended March 31, 2006, there were no financing activities.

In fiscal 2006, net cash provided by financing activities was $500,000 and consisted of the issuances of convertible promissory notes. In fiscal 2005, net cash provided by financing activities was $499,500 and consisted of the issuances of convertible promissory notes.

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". The annual limitation may result in the expiration of our net operating loss and tax credit carryforwards before they can be used.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2007, we had no significant contractual obligations. In addition, at March 31, 2007, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

BUSINESS

WITH RESPECT TO THIS DISCUSSION, THE TERMS "WE" "US" "OUR" "CNS" AND THE "COMPANY" REFER TO CNS RESPONSE, INC., A DELAWARE CORPORATION AND ITS WHOLLY-OWNED 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

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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).

abnormalities(9) and has, therefore, necessarily had to rely on symptomatic diagnoses to make course of 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-

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(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).

(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%20 Retail%20Drug%20Monitor%20April2006.pdf.

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.

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

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.

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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.

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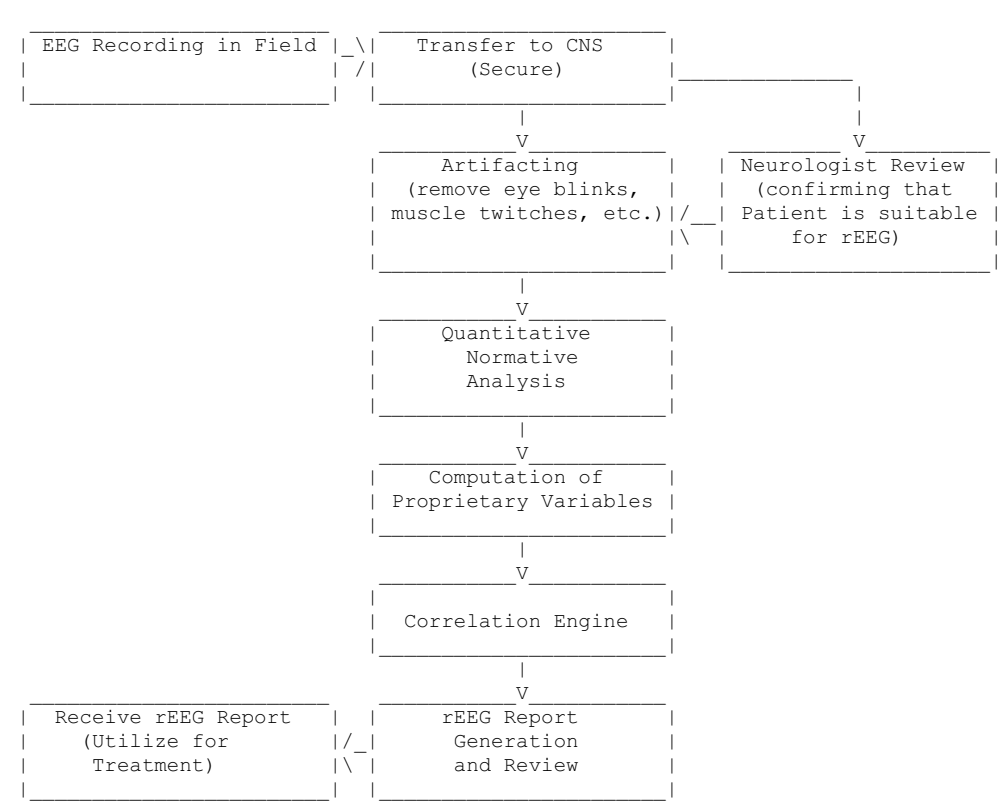
(14) Drug Reference for FDA Approved Psychiatric Drugs, http://neurotransmitter.net/drug_reference.html.



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)

COMPLETED INDEPENDENT STUDIES AND TRIALS

ADD/Depression Study 100 Patients	Veterans Association Blind Prospective Major Depression Study 13 Patients	CIGNA Treatment-Resistnat 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	Hoffman-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%

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.

(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 Analytical 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 Analytical 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 Analytical 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 Analytical Reports. It is valuable for physicians who are not familiar with our rEEG Analytical Reports to have an experienced colleague guide them through initial treatments that are facilitated by the use of our rEEG Analytical Reports. For physicians that are unfamiliar with our rEEG Analytical Reports, their success is dependent on their ability to understand our rEEG Analytical 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 Analytical 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 Analytical 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 Analytical 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.

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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).

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:

o Developing enhanced Type II Analyses that have increased value and content; o Addition of other CNSR agents, and possibly cardiac agents; o Developing an automated Type I (m) for patients on a single well characterized medication;
o Advancing our research to understand the total balance analysis that can be used for monitoring or a more global scale; and
o Improved graphical presentation of results.

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.

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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).

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

- 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 and state 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 and state laws and regulations change, we may need to incur additional costs to seek government approvals for the sale of 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.

DESCRIPTION OF PROPERTY

We currently lease our office space under a lease agreement which expires in November 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.

EMPLOYEES

As of May 17, 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.

MANAGEMENT

The following table sets forth the name, age and position of each of our executive officers and directors as of May 17, 2007. The following individuals served as executive officers and directors of CNSR California before our merger with CNSR California, and became our executive officers and directors upon completion of the merger on March 7, 2007.

NAME	AGE	POSITION
Leonard J. Brandt	50	Chairman of the Board, President, Chief Executive Officer and Secretary
Horace Hertz	57	Chief Financial Officer
David B. Jones	63	Director
Jerome Vaccaro, M.D.	51	Director

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.

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.

BOARD COMPOSITION AND COMMITTEES

Our board of directors currently consists of three members: Leonard Brandt, David Jones, and Jerome Vaccaro. Each director was elected either at a meeting of shareholders or by written consent of the shareholders and serves until our next annual meeting or until his or her successor is duly elected and qualified. We do not have a separately designated audit, compensation or nominating committee of our board of directors and the functions customarily delegated to these committees are performed by our full board of directors. We are not a "listed company" under SEC rules and are therefore not required to have separate committees comprised of independent directors. We have, however, determined that David Jones and Jerome Vaccaro are "independent" as that term is defined in Section 4200 of the Marketplace Rules as required by the NASDAQ Stock Market. We have also determined that our board of directors does not include an "audit committee financial expert" within the meaning of the rules and regulations of the SEC. However, the company's board of directors has determined that each of its members is able to read and understand fundamental financial statements and has substantial business experience that results in that member's financial sophistication. Accordingly, our board of directors believes that each of its members has sufficient knowledge and experience necessary to fulfill the duties and obligations that an audit committee would have.

We intend to establish an audit, compensation and nominating committee of our board of directors to the extent we expand our board to include at least three directors who are independent directors under the applicable rules of the SEC and NASDAQ.

In the past five years, none of our 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 our officers and directors have been convicted in a criminal proceeding or are subject to a pending 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.

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 and we do not expect to have any employment agreements with our new executive officers.

DIRECTOR COMPENSATION

Currently, our non-employee directors do not receive compensation for their services on our board. However, we reimburse directors for their travel expenses associated with attendance at meetings of our board of directors. There were no reimbursements for travel expenses for the fiscal year ended September 30, 2006, or for the six months ended March 31, 2007.

INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY

The Delaware General Corporation Law and certain provisions of our certificate of incorporation an 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 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.

PRINCIPAL AND SELLING STOCKHOLDERS

The selling security holders may offer and sell, from time to time, any or all of the shares of common stock held by them. Because the selling security holders may offer all or only some portion of the 9,983,138 shares of common stock to be registered, we cannot estimate how many shares of common stock the selling security holders may hold upon termination of the offering, nor can we express, as a percentage, how this number of shares will relate to the total number of shares that we will have outstanding at that time.

The following table presents information regarding the beneficial ownership of our common stock as of May 17, 2007, and the number of shares of common stock covered by this prospectus. The number of shares in the table represents an estimate of the number of shares of common stock to be offered by:

- each of the executive officers;
- each of our directors;
- all of our directors and executive officers as a group;
- each stockholder known by us to be the beneficial owner of more than 5% of our common stock; and
- each of the selling stockholders.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of our common stock subject to options and warrants from the company that are currently exercisable or exercisable within 60 days of May 17, 2007 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

The information presented in this table is based on 25,303,302 shares of our common stock outstanding on May 17, 2007. Unless otherwise indicated, the address of each of the executive officers and directors and 5% or more stockholders named below is c/o CNS Response, Inc., 2755 Bristol St., Suite 285 Costa Mesa, CA 92626

<TABLE>
<CAPTION>

	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO OFFERING	NUMBER OF SHARES BENEFICIALLY OWNED AFTER OFFERING

NAME OF BENEFICIAL OWNER	NUMBER	PERCENTAGE OF SHARES OUTSTANDING	NUMBER OF SHARES BEING OFFERED	NUMBER	PERCENTAGE OF SHARES OUTSTANDING
EXECUTIVE OFFICERS AND DIRECTORS:					
Leonard Brandt (1) ..... Director, President, Chief Executive Officer and Secretary	8,536,277	29.7%	0	8,536,277	29.7%
David B. Jones(2) ..... Director	4,338,521	16.4%	484,250	3,854,271	14.6%

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO OFFERING NUMBER	PERCENTAGE OF SHARES OUTSTANDING	NUMBER OF SHARES BEING OFFERED	NUMBER OF SHARES BENEFICIALLY OWNED AFTER OFFERING NUMBER	PERCENTAGE OF SHARES OUTSTANDING
Dr. Jerome Vaccaro ..... Director (3)	5,000	*	0	5,000	*
Horace Hertz ..... Chief Financial Officer	0	0	0	0	0
Directors and officers as a group (4 persons) (4)	12,879,798	43.0%	484,250	12,395,548	41.5%
5% STOCKHOLDERS:					
Stephen C. Suffin (5)	1,260,316	5.0%	0	1,260,316	5.0%
Sail Venture Partners LP (2)	4,338,521	16.4%	484,250	3,854,271	14.6%
Brian MacDonald(6)	1,985,039	7.6%	0	1,985,039	7.6%
W. Hamlin Emory (7)	1,316,781	5.1%	0	1,316,781	5.1%
Heartland Value Fund (8)	2,340,000	9.1%	2,340,000	--	--
EAC Investment Limited Partnership (9)	1,766,279	6.8%	0	1,766,279	6.8%

LMA SPC for and on behalf of Map 2 Segregated Portfolio;	1,625,000	6.3%	1,625,000	--	
Partner Healthcare Offshore Fund, Ltd.; Partner Healthcare Fund, L.P. (10)					
OTHER SELLING STOCKHOLDERS:					
Mark Abdou (11)	15,609	*	15,609	--	
Addison Adams (12)	15,610	*	15,610	--	
Corporate Capital Partners (13)	17,839	*	17,839	--	
Kevin Friedmann (14)	13,380	*	13,380	--	
Victor Fu (15)	13,379	*	13,379	--	
Peter Hogan (16)	4,460	*	4,460	--	
Ryan Hong (17)	22,299	*	22,299	--	
Lisa Klein (18)	13,380	*	13,380	--	
Kevin Leung (19)	17,839	*	17,839	--	
Albert Liou (20)	22,300	*	22,300	--	
A&E Capital Partners, LLC (21)	22,299	*	22,299	--	
Nimish Patel (22)	66,899	*	66,899	--	
Luan Phan (23)	22,299	*	22,299	--	
Silas Phillips (24)	22,300	*	22,300	--	
Erick E. Richardson (25)	66,898	*	66,898	--	
Troy Rillo (26)	22,300	*	22,300	--	
John Tishbi (27)	4,460	*	4,460	--	
David J. Zwiebel (28)	54,169	*	54,169	--	
Craig B. Swanson (29)	29,250	*	29,250	--	

Jaeger Family LLC (30)	16,249	*	16,249	--	
Henry Harbin, M.D. (31)	10,835	*	10,835	--	
Edward M. Giles (32)	110,500	*	110,500	--	

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO OFFERING NUMBER	PERCENTAGE OF SHARES OUTSTANDING	NUMBER OF SHARES BEING OFFERED	NUMBER OF SHARES BENEFICIALLY OWNED AFTER OFFERING NUMBER	PERCENTAGE OF SHARES OUTSTANDING
<S>	<C>	<C>	<C>	<C>	<C>
David J. Galey (33)	10,970	*	10,970	--	
Bill and Kim Woodworth (34)	58,500	*	58,500	--	
Edmund H. Melhado (35)	36,563	*	36,563	--	
Bradley N. Rotter Self Employed Pension Plan & trust (36)	146,250	*	146,250	--	
Bradley Rotter (37)	433,335	1.7%	433,335	--	
Paul E. von Kuster (38)	109,688	*	109,688	--	
Paul E. von Kuster, Trustee, Credit trust under will of Thomas W. von Kuster (39)	55,575	*	55,575	--	
Joseph E. Stocke (40)	29,250	*	29,250	--	
Martha S. McCormick (41)	13,000	*	13,000	--	
D. Dean McCormick III (42)	13,299	*	13,299	--	
David R. Holbrooke (43)	58,500	*	58,500	--	

Max A Schneider, M.D. Trust (44)	14,625	*	14,625	--	
Frederick E. Kahn, MD (45)	29,250	*	29,250	--	
Dr. Jim Greenblatt (46)	129,028	*	58,500	--	
Lawrence M. Baill (47)	32,886	*	14,625	--	
Lionsgate Capital (48)	219,375	*	219,375	--	
Jospeh A. Bailey (49)	29,250	*	29,250	--	
Dr. Samuel Klagsbrun (50)	29,250	*	29,250	--	
Daniel E. Greenblatt (51)	58,500	*	58,500	--	
Fred Ehrman (52)	325,000	1.3%	325,000	--	
William C. Brown (53)	36,563	*	36,563	--	
Michael T. Cullen, M.D. (54)	48,182	*	26,000	--	
Crown Jewel Ventures, LLC (55)	131,807	*	30,713	--	
Thomas W. von Kuster Jr. (56)	14,625	*	14,625	--	
George Karfunkel (57)	130,000	*	130,000	--	
Westfield Microcap Fund L.P. (58)	216,668	*	216,668	--	
Itasca Capital Partners, LLC (59)	58,500	*	58,500	--	
P. Kent Pachl (60)	5,418	*	5,418	--	
Kerry Judd and Susan Stillman (61)	10,970	*	10,970	--	
Mr. & Mrs. Shannon Sullivan (62)	29,250	*	29,250	--	
H. R. Swanson Revocable Trust (63)	58,500	*	58,500	--	
Robert James Blinken Jr. (64)	29,250	*	29,250	--	

Van Zandt Hawn (65)	29,250	*	29,250	--	
Thomas E. Brust and Susan Brust(66)	58,500	*	58,500	--	
Brean Murray Carret & Co. (67)	1,270,323	4.9%	1,244,978	25,345	*
Pradeep Sinha (68)	29,250	*	29,250	--	
Dr. Daniel Hoffman (69)	54,168	*	54,168	--	
Rotter Family Trust (70)	130,000	*	130,000	--	
Hal F. Lewis (71)	32,500	*	32,500	--	
G&A Consulting Retirement Trust (72)	58,500	*	58,500	--	
Arthur J. Bauernfeind RLT dated 6/25/04 (73)	260,000	1.0%	260,000	--	
Frederick Winston Trustee, Frederick Winston Revocable Trust u/a dated 11/02/01 (74)	29,250	*	29,250	--	
Pacific Ridge Capital, LLC (75)	40,954	*	40,954	--	

</TABLE>

<TABLE>
<CAPTION>

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED PRIOR TO OFFERING NUMBER	PERCENTAGE OF SHARES OUTSTANDING	NUMBER OF SHARES BEING OFFERED	NUMBER OF SHARES BENEFICIALLY OWNED AFTER OFFERING NUMBER	PERCENTAGE OF SHARES OUTSTANDING
<S>	<C>	<C>	<C>	<C>	<C>
SLWK Venture Fund, LLP (76)	62,166	*	62,166	--	
Medlen & Carroll, LLP (77)	119,834	*	16,035	--	
Hooper, Lundy & Bookman, Inc. (78)	27,085	*	27,085	--	
Scott Alderton (79)	50,894	*	29,726	21,168	*

Murray Markiles (80)	50,894	*	29,726	21,168	*
V. Joseph Stubbs (81)	50,894	*	29,726	21,168	*
Jonathan Hodes (82)	25,535	*	17,308	8,227	*
John McIlvery (83)	25,804	*	17,308	8,496	*
Greg Akselrud (84)	21,272	*	15,411	5,861	*
Scott Galer (85)	17,877	*	11,759	6,118	*
Kevin DeBre (86)	22,558	*	15,756	6,802	*
Ryan Azlein (87)	9,430	*	9,430	--	--
AJ Investors # 1 (88)	216,668	*	216,668	--	--
Westminster Securities (89)	2,633	*	2,633	--	--
John Pagnucco (90)	485,807	1.9%	64,125	421,682	1.7%
Doug Metz (91)	25,101	*	7,359	17,742	*

</TABLE>

* Less than 1%

(1) Consists of (a) 5,138,991 shares of common stock (including 540,000 shares owned by Mr. Brandt's children), and 3,397,286 shares of common stock issuable upon the exercise of vested and exercisable options and warrants held by Mr. Brandt.

(2) Consists of (a) 3,109,406 shares of Common Stock and (b) 1,229,115 shares of Common Stock issuable upon the exercise of vested and exercisable warrants held by Sail Venture Partners, LP. Of these holdings, 372,500 shares of common stock and 111,750 shares of common stock reserved for issuance upon exercise of certain warrants to purchase common stock are being registered for resale. Sail Venture Partners, LLC is the general partner of Sail Venture Partners, L.P.. The unanimous vote of the managing members of Sail Venture Partners, LLC (who are Walter Schindler, Alan Sellers, Thomas Cain, and David B. Jones), is required to voting and make investment decisions over the shares held by this selling stockholder. The address of Sail Venture Partners, L.P. is 600 Anton Blvd., Suite 1750, Costa Mesa, CA 92626.

(3) Consists of options to acquire 5,000 shares of common stock exercisable within 60 days of May 17, 2007.

(4) Consists of 8,248,397 shares of common stock and 4,631,401 shares of common stock issuable upon the exercise of vested and exercisable options and warrants.

(5) Consists of 965,422 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.

(6) Consists of 1,242,375 shares of common stock and 742,664 shares of common stock issuable upon the exercise of vested and exercisable

options to purchase common stock. The address of Brian MacDonald is 4007 Beard Ave. South, Minneapolis, MN 55410.

(7) Consists of 1,019,249 shares of common stock and 297,532 shares of common stock issuable upon the exercise of vested and exercisable options to purchase common stock. The address of Mr. Emory is 9663 Santa Monica Blvd., Suite 221, Beverly Hills, CA 90210.

(8) Consists of 1,800,000 shares of common stock and 540,000 shares reserved for issuance upon exercise of warrants to purchase common stock. Heartland Group Value Fund is affiliated with Hartland Investor Services, LLC, a registered broker/dealer and member of NASD. Heartland Group Value Fund purchased or otherwise acquired its shares in the ordinary course of business and, at the time of such purchase/acquisition, had no agreements or understandings, directly or indirectly, with any person, to distribute the securities to be resold. Mr. Paul T. Beste, Vice President & Secretary of Heartland Group Inc., exercises

voting and investment authority over the shares held by this selling stockholder. The address of the selling stockholder is c/o Brown Brothers Harriman, 140 Broadway St., New York, NY 10005.

(9) Consists of 1,249,846 shares of common stock and 516,433 shares of common stock issuable upon the exercise of warrants to purchase common stock. Anthony Morgentheau exercises voting and investment authority over the shares held by this selling stockholder. The address of the selling stockholder is 380 Leucadendra Drive, Cora Gables, FL 33156.

(10) Consists of 224,110 shares of common stock and 67,233 shares reserved for issuance upon exercise of warrants to purchase common stock held by LMA SPC for and on behalf of Map 2 Segregated Portfolio; 651,090 shares of common stock and 195,327 shares reserved for issuance upon exercise of certain warrants to purchase common stock held by Partner Healthcare Fund, LP, and 374,800 shares of common stock and 112,440 shares reserved for issuance upon exercise of warrants to purchase common stock held by Partner Healthcare Offshore Fund, Ltd. Eric Moore, as the Chief Financial Officer of Partner Healthcare Offshore Fund, Ltd., exercises voting and investment authority over the shares held by Partner Healthcare Offshore Fund, Ltd. Eric Moore, as the Chief Financial Officer of Partner Healthcare Fund, L.P., exercises voting and investment authority over the shares held by Partner Healthcare Fund, L.P.. Robert P. Swan, as director, exercises voting and investment authority over the shares held by LMA SPC for and on behalf of Map 2 Segregated Portfolio. The address of each of the selling stockholders is One Market Plaza, Steuart Tower, 22nd Floor, San Francisco, CA 94105.

(11) Consists of 15,609 shares of common stock.

(12) Consists of 15,610 shares of common stock.

(13) Consists of 17,839 shares of common stock.

(14) Consists of 13,380 shares of common stock.

(15) Consists of 13,379 shares of common stock.

(16) Consists of 4,460 shares of common stock.

(17) Consists of 22,299 shares of common stock.

(18) Consists of 13,380 shares of common stock.

(19) Consists of 17,839 shares of common stock.

(20) Consists of 22,300 shares of common stock.

(21) Consists of 22,299 shares of common stock. Edgar Park, as member, exercises voting and investment authority over the shares held by this selling stockholder.

(22) Consists of 66,899 shares of common stock.

(23) Consists of 22,299 shares of common stock.

(24) Consists of 22,300 shares of common stock.

(25) Consists of 66,898 shares of common stock.

(26) Consists of 22,300 shares of common stock. (

27) Consists of 4,460 shares of common stock.

(28) Consists of 41,668 shares of common stock and 12,501 shares reserved for issuance upon exercise of warrants to purchase common stock.

(29) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(30) Consists of 12,499 shares of common stock and 3,750 shares reserved for issuance upon exercise of warrants to purchase common stock. Eric Jaeger, President and General Manager of Jaeger Family LLC exercises voting and investment authority over the shares held by this selling stockholder.

(31) Consists of 8,334 shares of common stock and 2,501 shares reserved for issuance upon exercise of warrants to purchase common stock.

(32) Consists of 85,000 shares of common stock and 25,500 shares reserved for issuance upon exercise of warrants to purchase common stock.

(33) Consists of 8,438 shares of common stock and 2532 shares reserved for issuance upon exercise of warrants to purchase common stock.

(34) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock. Kimberly Craig-Woodworth and William N. Woodworth are affiliated with Brean Murray, Carret & Co. a registered broker/dealer and member of NASD. Kimberly Craig-Woodworth and William N. Woodworth purchased or otherwise acquired these shares in the ordinary course of business and, at the time of such purchase/acquisition, had no agreements or understandings, directly or indirectly, with any person, to distribute the securities to be resold.

(35) Consists of 28,125 shares of common stock and 8,438 shares reserved for issuance upon exercise of warrants to purchase common stock.

(36) Consists of 112,500 shares of common stock and 33,751 shares reserved for issuance upon exercise of warrants to purchase common stock. Bradley Rotter, Trustee of the Bradley N. Rotter Self Employed Pension Plan & Trust, exercises voting and investment authority over the shares held by this selling stockholder.

(37) Consists of 333,334 shares of common stock and 100,000 shares reserved for issuance upon exercise of warrants to purchase common stock.

(38) Consists of 84,375 shares of common stock and 25,313 shares reserved for issuance upon exercise of warrants to purchase common stock.

(39) Consists of 42,750 shares of common stock and 12,825 shares reserved for issuance upon exercise of warrants to purchase common stock. Paul E. von Kuster, Trustee, Credit trust under will of Thomas W. von Kuster, exercises voting and investment authority over the shares held by this selling stockholder.

(40) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(41) Consists of 10,000 shares of common stock and 3,000 shares reserved for issuance upon exercise of warrants to purchase common stock.

(42) Consists of 10,230 shares of common stock and 3,069 shares reserved for issuance upon exercise of warrants to purchase common stock.

(43) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock.

(44) Consists of 11,250 shares of common stock and 3,375 shares reserved for issuance upon exercise of warrants to purchase common stock. Max Schneider, Trustee of the Max A Schneider, M.D. Trust, exercises voting and investment authority over the shares held by this selling stockholder.

(45) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(46) Consists of 115,528 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock. 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock are being registered for re-sale by the selling shareholder on this prospectus. Dr. Greenblatt

is a contractor who acts as one of CNS Response, Inc.'s Regional Medical Directors and in this capacity, among other things, trains physicians in the use of rEEG.

(47) Consists of 29,511 shares of common stock and 3,375 shares reserved for issuance upon exercise of warrants to purchase common stock. 11,250 shares of common stock and 3,375 shares reserved for issuance upon exercise of warrants to purchase common stock are being registered for re-sale by the selling shareholder on this prospectus.

(48) Consists of 168, 750 shares of common stock and 50,625 shares reserved for issuance upon exercise of warrants to purchase common stock. Kenneth Rickel, as President of Liongate Capital, exercises voting and investment authority over the shares held by this selling stockholder.

(49) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock. Mr. Bailey is affiliated with Brean Murray, Carret & Co., LLC, a registered broker/dealer and member of NASD, as he is an employee of Brean Murray, Carret & Co., LLC. Mr. Bailey purchased or otherwise acquired his shares in the ordinary course of business and, at the time of such purchase/acquisition, had no agreements or understandings, directly or indirectly, with any person, to distribute the securities to be resold.

(50) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(51) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock.

(52) Consists of 250,000 shares of common stock and 75,000 shares reserved for issuance upon exercise of warrants to purchase common stock. Mr. Ehrman is affiliated with Brean Murray, Carret & Co. a registered broker/dealer and member of NASD. Mr. Ehrman purchased or otherwise acquired his shares in the ordinary course of business and, at the time of such purchase/acquisition, had no agreements or understandings, directly or indirectly, with any person, to distribute the securities to be resold.

(53) Consists of 28,125 shares of common stock and 8,438 shares reserved for issuance upon exercise of warrants to purchase common stock.

(54) Consists of 42,182 shares of common stock and 6,000 shares reserved for issuance upon exercise of warrants to purchase common stock. 20,000 shares of common stock and 6,000 shares reserved for issuance upon exercise of warrants to purchase common stock are being registered for re-sale by the selling shareholder on this prospectus.

(55) Consists of 124,719 shares of common stock and 7,088 shares reserved for issuance upon exercise of warrants to purchase common stock. Sharon Keene exercises voting and investment authority over the shares held by this selling stockholder. 23,625 shares of common stock and 7,088 shares reserved for issuance upon exercise of warrants to purchase common stock are being registered for re-sale by the selling shareholder on this prospectus.

(56) Consists of 11,250 shares of common stock and 3,375 shares reserved for issuance upon exercise of warrants to purchase common stock.

(57) Consists of 100,000 shares of common stock and 30,000 shares reserved for issuance upon exercise of warrants to purchase common stock.

(58) Consists of 166,667 shares of common stock and 50,001 shares reserved for issuance upon exercise of warrants to purchase common stock. William A. Muggia, the general partner of Westfield Microcap Fund L.P., exercises voting and investment authority over the shares held by this selling stockholder.

(59) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock. Michael S. Wallace, the Managing Member of Itasca Capital Partners, LLC, exercises voting and investment authority over the shares held by this selling stockholder.

(60) Consists of 4,167 shares of common stock and 1,251 shares reserved for issuance upon exercise of warrants to purchase common stock.

(61) Consists of 8,438 shares of common stock and 2,532 shares reserved for issuance upon exercise of warrants to purchase common stock.

(62) Consists of 22,500 shares of common stock and 6,750 shares reserved for

issuance upon exercise of warrants to purchase common stock.

(63) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock. H. R. Swanson, Trustee of the H. R. Swanson Rev. Trust, exercises voting and investment authority over the shares held by this selling stockholder.

(64) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(65) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(66) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock.

(67) Consists of 633,138 shares of common stock and 637,185 shares reserved for issuance upon exercise of warrants to purchase common stock. Brean Murray, Carret & Co., LLC is a NASD member firm. Brean Murray, Carret & Co., LLC purchased or otherwise acquired its shares in the ordinary course of business and, at the time of such purchase/acquisition, had no agreements or understandings, directly or indirectly, with any person, to distribute the securities to be resold. William McCluskey, President and Chief Executive Officer of Brean Murray, Carret & Co., LLC, exercises voting and investment authority over the

shares held by this selling stockholder. 625,218 shares of common stock and 619,760 shares reserved for issuance upon exercise of warrants to purchase common stock are being registered for re-sale by the selling shareholder on this prospectus.

(68) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock.

(69) Consists of 41,667 shares of common stock and 12,501 shares reserved for issuance upon exercise of warrants to purchase common stock. Dr. Hoffman is a contractor who acts as CNS Response, Inc.'s National Medical Director and in this capacity, among other things, trains physicians in the use of rEEG.

(70) Consists of 100,000 shares of common stock and 30,000 shares reserved for issuance upon exercise of warrants to purchase common stock. John Rotter, Trustee of the Rotter Family Trust, exercises voting and investment authority over the shares held by this selling stockholder.

(71) Consists of 25,000 shares of common stock and 7,500 shares reserved for issuance upon exercise of warrants to purchase common stock. Mr. Lewis is affiliated with a registered broker/dealer and member of NASD. Mr. Lewis purchased or otherwise acquired his shares in the ordinary course of business and, at the time of such purchase/acquisition, had no agreements or understandings, directly or indirectly, with any person, to distribute the securities to be resold.

(72) Consists of 45,000 shares of common stock and 13,500 shares reserved for issuance upon exercise of warrants to purchase common stock. Gary Gossard, as Trustee of the G&A Consulting Retirement Trust, exercises voting and investment authority over the shares held by this selling stockholder.

(73) Consists of 200,000 shares of common stock and 60,000 shares reserved for issuance upon exercise of warrants to purchase common stock. Arthur J. Bauernfeind, as Trustee of the Arthur J. Bauernfeind RLT dated 6/25/04, exercises voting and investment authority over the shares held by this selling stockholder.

(74) Consists of 22,500 shares of common stock and 6,750 shares reserved for issuance upon exercise of warrants to purchase common stock. Frederick Winston, as Trustee of the Frederick Winston Revocable Trust u/a dated 11/2/01, exercises voting and investment authority over the shares held by this selling stockholder.

(75) Consists of 8,334 shares of common stock and 32,620 shares reserved for issuance upon exercise of warrants to purchase common stock.. Mark Mansfield of Pacific Ridge Capital, LLC, exercises voting and investment authority over the shares held by this selling stockholder.

(76) Consists of 47,820 shares of common stock and 14,346 shares reserved for issuance upon exercise of warrants to purchase common stock. Steve Lundberg of SLWK Venutre Fund, LLP, exercises voting and investment authority over the shares held by this selling stockholder.

(77) Consists of 116,133 shares of common stock and 3,701 shares reserved for issuance upon exercise of warrants to purchase common stock. Peter Carroll of Medlen & Carroll, LLP, exercises voting and investment authority over the shares held by this selling stockholder. 12,334 shares of common stock and 3,701 shares reserved for issuance upon exercise of warrants to purchase common stock are being registered for re-sale by the selling shareholder on this prospectus.

(78) Consists of 20,834 shares of common stock and 6,251 shares reserved for issuance upon exercise of warrants to purchase common stock. Stephen K. Phillips of Hooper, Lundy & Bookman, Inc. exercises voting and investment authority over the shares held by this selling stockholder.

(79) Consists of 36,096 shares of common stock and 14,798 shares reserved for issuance upon exercise of warrants to purchase common stock. 22,866 shares of common stock and 6,860 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(80) Consists of 36,096 shares of common stock and 14,798 shares reserved for issuance upon exercise of warrants to purchase common stock. 22,866 shares of common stock and 6,860 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(81) Consists of 36,096 shares of common stock and 14,798 shares reserved for issuance upon exercise of warrants to purchase common stock. 22,866 shares of common stock and 6,860 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(82) Consists of 18,456 shares of common stock and 7,079 shares reserved for issuance upon exercise of warrants to purchase common stock. 13,314 shares of common stock and 3,994 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(83) Consists of 18,624 shares of common stock and 7,180 shares reserved for issuance upon exercise of warrants to purchase common stock. 13,314 shares of common stock and 3,994 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(84) Consists of 15,518 shares of common stock and 5,754 shares reserved for issuance upon exercise of warrants to purchase common stock. 11,855 shares of common stock and 3,556 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(85) Consists of 12,869 shares of common stock and 5,008 shares reserved for issuance upon exercise of warrants to purchase common stock. 9,045 shares of common stock and 2,714 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(86) Consists of 16,371 shares of common stock and 6,187 shares reserved for issuance upon exercise of warrants to purchase common stock. 12,120 shares of common stock and 3,636 shares of common stock reserved for issuance upon exercise of warrants to purchase common stock are being registed for re-sale on this prospectus by the selling shareholder.

(87) Consists of 7,254 shares of common stock and 2,176 shares reserved for issuance upon exercise of warrants to purchase common stock.

(88) Consists of 166,667 shares of common stock and 50,001 shares reserved for issuance upon exercise of warrants to purchase common stock. Adam Katz, as Partner of AJ Investors #1, exercises voting and investment authority over the shares held by this selling stockholder.

(89) Consists of 2,633 shares reserved for issuance upon exercise of warrants to purchase common stock.

(90) Consists of 225,856 shares of common stock and 259,951 shares reserved for issuance upon exercise of warrants to purchase common stock. Of these holdings, 64,125 shares of common stock reserved for issuance upon exercise of common stock are being registered for resale sale on this prospectus by the selling shareholder.

(91) Consists of 9,566 shares of common stock and 15,535 shares reserved for issuance upon exercise of warrants to purchase common stock. Of these holdings, 7,539 shares of common stock reserved for issuance upon

exercise of common stock are being registered for resale on this prospectus by the selling shareholder.

RELATED PARTY TRANSACTIONS

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 owned 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. Subsequent to the closing of the Merger, Meyerlen, LLC was dissolved, and ownership of all of the shares of our Common Stock formerly held by Meyerlen, LLC were distributed to Mr. Brandt.

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. (now called Sail Venture Partners LP) 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 $91,700 to pay the withholding tax on the value of such shares, which loan was 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. (now called Sail Venture Partners LP) 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.

CNS RESPONSE, INC. (A DELAWARE CORPORATION)

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.

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 (on a pre-reverse stock split basis). On August 24, 2004, our board elected both managing partners of NTX, Scott Absher and George LeFevre, to our board of directors, and also elected Mr. Absher as CEO and Mr. LeFevre as CFO and Secretary. 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 (76,000 shares of our common stock after taking into account our 1-for-50 reverse stock split which became effective on January 10, 2007) to the purchasers. The Company received an aggregate of $237,669 as consideration for the share issuance. In addition, these investors acquired shares in private transactions with certain of our stockholders, and acquired a majority stake in our issued and outstanding shares. In connection with these transactions, effective July 18, 2006, Mr. Scott Absher and Mr. George LeFevre resigned as officers and members of the board of directors, and Mr. Silas Philips was appointed our Chief Executive Officer, Chief Financial Officer, Secretary, and sole director. Mr. Phillips 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.

PRIVATE PLACEMENT

On March 7, 2007, Odyssey Venture Partners II, L.P. (now called Sail Venture Partners LP), 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, a director of the company, is a partner of Sail Venture Partners, L.P.

TRANSACTIONS WITH PROMOTERS AND CONTROL PERSONS

Prior to the Merger, which closed on March 7, 2007, Strativation, Inc. (now called CNS Response, Inc.) existed as a "shell company" with nominal assets whose sole busines was to identify, evalutate and investigate various companies to acquire or with which to merge.

SHARES FOR DEBT AGREEMENT

Prior to the Merger, on January 11, 2007, we entered into a Shares For Debt Agreement with Richardson & Patel LLP ("R&P"), our former legal counsel, pursuant to which we agreed to issue and R&P agreed to accept 645,846 restricted shares of our 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 we 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 our common stock, which then represented 75.5% of our issued and outstanding common stock.

REGISTRATION RIGHTS AGREEMENT

On January 11, 2007, we 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 767,101 shares of our common stock held or to be acquired by them.

MERGER AGREEMENT

On January 16, 2007, we entered into an Agreement and Plan of Merger with CNS Response, Inc., a California corporation (or CNSR California), and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary that was formed to facilitate the acquisition of CNSR California. On March 7, 2007, the merger with CNSR California closed, CNSR California became our wholly-owned subsidiary, and we changed our name from Strativation, Inc. to CNS Response, Inc..

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. Pursuant to the merger agreement, our former sole director and executive officer, Silas Phillips, resigned as a director and executive officer of our company effective as of the closing of the Merger, and the directors and officers of CNSR California were appointed to serve as directors and officer of our company. 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. Following the Merger, the business conducted by the company is the business conducted 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.

DESCRIPTION OF CAPITAL STOCK

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

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 May 17, 2007, we had 25,303,302 shares of Common Stock issued and outstanding. In addition, we have reserved 4,136,103 shares of Common Stock for issuance in respect of options to purchase common stock and 6,899,352 shares of Common Stock were reserved for issuance pursuant to issued and outstanding warrants to purchase our Common Stock.

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.

WARRANTS

At May 17, 2007, the following warrants were outstanding:

- warrants that will expire at various times through 2012 to purchase an aggregate of 1,688,132 shares of our common stock at an exercise price per share of $0.01, which were granted in connection with the issuance of convertible promissory notes;
- warrants that will expire at various times through 2015 to purchase an aggregate of 1,427,022 shares of our common stock at an exercise price per share of $0.59 which were granted in connection with the issuance of convertible promissory notes;
- warrants that will expire at various times through 2011 to purchase an aggregate of 1,143,587 shares of our common stock at an exercise price per share of $1.51 which were issued to investors in connection with the private placement completed in November 2006;

- warrants that will expire in 2011 to purchase 7,921 shares of our common stock at an exercise price per share of $1.01 which were granted to the placement agent in connection with the private placement completed in November 2006;
- warrants that will expire in 2011 to purchase an aggregate of 4,752 shares of our common stock at an exercise price per

share of $1.812 which were granted to the placement agent in connection with the private placement completed in November 2006;

- warrants that will expire in 2012 to purchase 1,951,444 shares of our common stock at an exercise price per share of $1.80 which were issued to investors in connection with the private placement which was completed concurrently with the Merger on March 7, 2007;
- warrants that will expire in 2012 to purchase 520,381 shares of our common stock at an exercise price per share of $1.44 which were issued to the placement agent in connection with the private placement which was completed concurrently with the Merger on March 7, 2007;
- warrants that will expire in 2012 to purchase 156,114 shares of our common stock at an exercise price per share of $1.80 which were issued to the placement agent in connection with the private placement which was completed concurrently with the Merger on March 7, 2007.

OPTIONS

At May 17, 2007, options to purchase 4,136,103 shares of our common stock were outstanding. These options were granted to former holders of options of CNSR California, were assumed by us, and converted into options to purchase shares of our common stock. The options granted to former holders of options of CNSR California are exercisable at a weighted average exercise price of approximately $0.14 per share, and will expire at various times on the tenth anniversary of the date on which they were granted.

ANTI-TAKEOVER PROVISIONS

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

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

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

TRANSFER AGENT AND REGISTRAR

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

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

Over-the-Counter Bulletin Board under the symbol CNSO.OB.

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

PLAN OF DISTRIBUTION

We are registering the shares of common stock on behalf of the selling security holders. Sales of shares may be made by selling security holders, including their respective donees, transferees, pledgees or other successors-in-interest directly to purchasers or to or through underwriters, broker-dealers or through agents. Sales may be made from time to time on the Over-the-Counter Bulletin Board or any exchange upon which our shares may trade in the future, in the over-the-counter market or otherwise, at market prices prevailing at the time of sale, at prices related to market prices, or at negotiated or fixed prices. The shares may be sold by one or more of, or a combination of, the following:

- a block trade in which the broker-dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction (including crosses in which the same broker acts as agent for both sides of the transaction);
- purchases by a broker-dealer as principal and resale by such broker-dealer, including resales for its account, pursuant to this prospectus;
- ordinary brokerage transactions and transactions in which the broker solicits purchases;
- through options, swaps or derivatives;
- in privately negotiated transactions;
- in making short sales or in transactions to cover short sales;
- put or call option transactions relating to the shares; and
- any other method permitted under applicable law.

The selling security holders may effect these transactions by selling shares directly to purchasers or to or through broker-dealers, which may act as agents or principals. These broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling security holders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principals, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions). The selling security holders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their securities.

The selling security holders may enter into hedging transactions with broker-dealers or other financial institutions. In connection with those transactions, the broker-dealers or other financial institutions may engage in short sales of the shares or of securities convertible into or exchangeable for the shares in the course of hedging positions they assume with the selling security holders. The selling security holders may also enter into options or other transactions with broker-dealers or other financial institutions which require the delivery of shares offered by this prospectus to those broker-dealers or other financial institutions. The broker-dealer or other financial institution may then resell the shares pursuant to this prospectus (as amended or supplemented, if required by applicable law, to reflect those transactions).

The selling security holders and any broker-dealers that act in connection with the sale of shares may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act of 1933, and any commissions received by broker-dealers or any profit on the resale of the shares sold by them while acting as principals may be deemed to be underwriting discounts or commissions under the Securities Act. The selling security holders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against liabilities, including liabilities arising

under the Securities Act. We have agreed to indemnify certain selling security holders and certain selling security holders have agreed, severally and not

jointly, to indemnify us against some liabilities in connection with the offering of the shares, including liabilities arising under the Securities Act.

The selling security holders will be subject to the prospectus delivery requirements of the Securities Act. We have informed the selling security holders that the anti-manipulative provisions of Regulation M promulgated under the Securities Exchange Act of 1934 may apply to their sales in the market.

Selling security holders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided they meet the criteria and conform to the requirements of Rule 144.

Upon being notified by a selling security holder that a material arrangement has been entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplement to this prospectus, if required pursuant to Rule 424(b) under the Securities Act, disclosing:

- the name of each such selling security holder and of the participating broker-dealer(s);
- the number of shares involved;
- the initial price at which the shares were sold;
- the commissions paid or discounts or concessions allowed to the broker-dealer(s), where applicable;
- that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus; and
- other facts material to the transactions.

In addition, if required under applicable law or the rules or regulations of the Commission, we will file a supplement to this prospectus when a selling security holder notifies us that a donee or pledgee intends to sell more than 500 shares of common stock.

We are paying all expenses and fees in connection with the registration of the shares. The selling security holders will bear all brokerage or underwriting discounts or commissions paid to broker-dealers in connection with the sale of the shares.

LEGAL MATTERS

Stubbs Alderton & Markiles, LLP ("SAM LLP"), has provided legal services to us in connection with its preparation of the registration statement covering the securities offered by this prospectus. In addition, SAM LLP has rendered a legal opinion, attached hereto as Exhibit 5.1, as to the validity of the shares of the our common stock to be registered hereby. SAM LLP was the holder of 61,880 shares of common stock and warrants to purchase 37,128 shares of common stock at an exercise price of $1.51 of CNS Response, Inc., a California corporation, which converted into 61,880 shares of our common stock and warrants to purchase 37,128 shares of our common stock at an exercise price of $1.51 upon the closing of the merger on March 7, 2007. In addition, SAM Venture Partners Invested $162,600 in the Private Placement that closed on March 7, 2007, and in exchange received 135,500 shares of our common stock, and warrants to purchase 40,650 shares of our common stock at an exercise price of $1.81 per share. Subsequent to the Private Placement, SAM Venture Partners distributed the aforementioned shares and warrants to its partners, each of whom is a partner in SAM LLP.

EXPERTS

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

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. We have also filed with the SEC under the Securities Act a registration statement on Form SB-2 with respect to the common stock offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not contain all the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement, portions of which are omitted as permitted by the rules

and regulations of the SEC. Statements made in this prospectus regarding the contents of any contract or other document are summaries of the material terms of the contract or document. With respect to each contract or document filed as an exhibit to the registration statement, reference is made to the corresponding exhibit. For further information pertaining to us and the common stock offered by this prospectus, reference is made to the registration statement, including the exhibits and schedules thereto, copies of which may be inspected without charge at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of all or any portion of the registration statement may be obtained from the SEC at prescribed rates. Information on the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site that contains reports, proxy and information statements and other information that is filed through the SEC's EDGAR System. The web site can be accessed at http://www.sec.gov.

INDEX TO FINANCIAL STATEMENT

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
CNS Response, Inc.

We have audited the accompanying balance sheet of CNS Response, Inc. (the "Company") as of September 30, 2006, 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 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.
CONSOLIDATED BALANCE SHEETS AT MARCH 31, 2007 (UNAUDITED)
AND SEPTEMBER 30, 2006

<CAPTION>

	MARCH 31, 2007 (unaudited)	SEPTEMBER 30, 2006
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash	$ 6,383,000	$ 204,900
Accounts receivable (net of allowance for doubtful accounts of $17,200 in 2007 and $4,800 in 2006)	47,000	25,400
Prepaids and other	228,700	67,000
Total current assets	6,658,700	297,300
OTHER ASSETS:		
Intangible assets (net of accumulated amortization of $558,100 in 2007 and $538,200 in 2006)	--	19,900
Loans to related parties	--	96,600
Other assets	8,700	80,400
TOTAL ASSETS	$ 6,667,400	$ 494,200
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable including ($8,000 in 2007 and $8,000 in 2006 to related parties)	361,900	$ 666,100
Accrued liabilities	250,000	248,700
Deferred compensation (including $56,700 in 2007 and $58,000 in 2006 to related parties)	79,100	75,200
Accrued consulting fees	103,000	136,700
Accrued interest (including $0 in 2007 and $414,700 in 2006 to related parties)	32,500	1,156,500
Note payable to NuPharm Database, LLC	--	287,400
Convertible promissory notes (including $0 in 2007 and $1,768,300 in 2006 to related parties)	50,000	3,116,700
Derivative instrument liability	2,041,500	--
Total current liabilities	2,918,000	5,687,300
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, $0.001 par value; authorized 750,000,000 shares; 24,638,912 outstanding in 2007 and 7,902,940 outstanding in 2006	24,600	7,900
Additional paid-in capital	13,217,500	2,822,100
Accumulated deficit	(9,492,700)	(8,023,100)
Total stockholders' equity (deficit)	3,749,400	(5,193,100)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,667,400	$ 494,200

</TABLE>

(See accompanying Notes to Consolidated Financial Statements)

<TABLE>

CNS RESPONSE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2007
(UNAUDITED) AND 2006 (UNAUDITED) AND FOR THE YEARS
ENDED SEPTEMBER 30, 2006 AND 2005.

<CAPTION>

	SIX MONTHS ENDED MARCH 31, (Unaudited)		YEAR ENDED SEPTEMBER 30,

	2007	2006	2006	2005
<S>	<C>	<C>	<C>	<C>
REVENUES	$ 112,700	$ 85,800	$ 175,900	$ 127,400
OPERATING EXPENSES:				
Cost of revenues (including amortization expense of $19,900 for the six months ended March 31, 2007, $39,800 for the six months ended March 31, 2006, and $79,800 for each of the years ended September 30, 2006 and 2005)	76,600	75,700	175,900	165,100
Research and development	451,200	204,200	76,700	58,500
Sales and marketing	47,500	71,300	36,000	52,900
General and administrative	874,700	265,900	1,671,100	811,800
Total operating expenses	1,450,000	617,100	1,959,700	1,088,300
OPERATING LOSS	(1,337,300)	(531,300)	(1,784,200)	(960,900)
OTHER INCOME (EXPENSE):				
Interest expense, net	(193,200)	(163,000)	(390,600)	(330,700)
Gain (loss on derivative instruments	--	--	1,178,500	(212,500)
Gain on troubled debt restructuring	--	--	1,079,700	
Other	61,700	--	--	--
Total other income (expense)	(131,500)	(163,000)	1,867,600	(543,200)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(1,468,800)	(694,300)	83,400	(1,504,100)
PROVISION FOR INCOME TAXES	800	--	800	800
NET INCOME (LOSS)	$ (1,469,600)	$ (694,300)	$ 82,600	$ (1,504,900)
BASIC NET INCOME (LOSS) PER SHARE	$ (0.12)	$ (0.34)	$ 0.03	$ (0.73)
DILUTED NET INCOME (LOSS) PER SHARE	$ (0.12)	$ (0.34)	--	$ (0.73)
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	12,425,285	2,068,823	2,836,049	2,068,823
Diluted	12,425,285	2,068,823	33,369,578	2,068,823

</TABLE>

(See accompanying Notes to Consolidated Financial Statements)

<TABLE>

CNS RESPONSE, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE SIX MONTHS ENDED MARCH 31, 2007
(UNAUDITED) AND THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

<CAPTION>

For the six months ended March 31, 2007	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit
<S>	<C>	<C>	<C>	<C>
BALANCE - October 1, 2004	2,068,823	$ 2,100	$ 26,100	$ (6,600,800)
Net loss for the year ended September 30, 2005	--	--	--	(1,504,900)

BALANCE - September 30,2005	2,068,823	2,100	26,100	(8,105,700)
Reclassification of derivative instrument	--	--	343,100	--
Issuance of stock for settlement of debt	5,834,117	5,800	695,000	--
Troubled debt restructuring with related parties	--	--	1,388,000	--
Fair value of options issued to employees and consultants	--	--	369,900	--
Net income for the year ended September 30, 2006	--	--	--	82,600
BALANCE - September 30,2006	7,902,940	$ 7,900	$ 2,822,100	$ (8,023,100)
Forgiveness of accrued interest from NuPharm and issuance and exercise of warrants by NuPharm (unaudited)	2,800,000	2,800	334,800	--
Conversion of convertible promissory notes and accrued interest (unaudited)	5,993,515	6,000	4,061,100	--
Issuance of stock in connection with mezzanine financing, net of offering costs of $47,600 (unaudited)	1,905,978	1,900	1,875,500	--
Issuance of stock for settlement of debt (unaudited)	11,015	--	1,300	--
Issuance of options in settlement of accrued consulting fees (unaudited)	--	--	27,000	--
Issuance of stock in connection with private placement, net of offering costs of $991,600 (unaudited)	5,840,375	5,800	6,011,100	--
Issuance of stock as payment of placement agent fee (unaudited)	83,333	100	(100)	--
Issuance of stock to repay note to NuPharm and related accrued interest (unaudited)	244,509	200	293,200	--
Collection of loans receivable through the receipt of stock (unaudited)	(142,753)	(100)	(171,200)	--
Stock- based compensation (unaudited)	--	--	4,200	--
Derivative instrument liability (unaudited)	--	--	(2,041,500)	--
Net loss for the six months ended March 31, 2007 (unaudited)	--	--	--	(1,469,600)
Balance at March 31, 2007 (unaudited)	24,638,912	$ 24,600	$ 13,217,500	$ (9,492,700)

<CAPTION>

For the six months ended March 31, 2007	Total
<S>	<C>
BALANCE - October 1, 2004	$ (6,572,600)
Net loss for the year ended September 30, 2005	(1,504,900)
BALANCE - September 30,2005	(8,077,500)
Reclassification of derivative instrument	343,100
Issuance of stock for settlement of debt	700,800
Troubled debt restructuring with related parties	1,388,000
Fair value of options issued to employees and consultants	369,900
Net income for the year ended September 30, 2006	82,600
BALANCE - September 30,2006	$ (5,193,100)
Forgiveness of accrued interest from NuPharm and issuance and exercise of warrants by NuPharm (unaudited)	337,600
Conversion of convertible promissory notes and accrued interest (unaudited)	4,067,100
Issuance of stock in connection with mezzanine financing, net of offering costs of $47,600 (unaudited)	1,877,400
Issuance of stock for settlement of debt (unaudited)	1,300
Issuance of options in settlement of accrued consulting fees (unaudited)	27,000
Issuance of stock in connection with private placement, net of offering costs of $991,600 (unaudited)	6,016,900

Issuance of stock as payment of placement agent fee (unaudited)	--
Issuance of stock to repay note to NuPharm and related accrued interest (unaudited)	293,400
Collection of loans receivable through the receipt of stock (unaudited)	(171,300)
Stock- based compensation (unaudited)	4,200
Derivative instrument liability (unaudited)	(2,041,500)
Net loss for the six months ended March 31, 2007 (unaudited)	(1,469,600)
Balance at March 31, 2007 (unaudited)	$ 3,749,400

</TABLE>

(See accompanying Notes to Consolidated Financial Statements)

<TABLE>

CNS RESPONSE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED MARCH 31, 2007 (UNAUDITED) AND 2006 (UNAUDITED) AND FOR YEARS ENDED SEPTEMBER 30, 2006 AND 2005

<CAPTION>

	SIX MONTHS ENDED MARCH 31, (unaudited)		YEAR ENDED SEPTEMBER 30,	
	2007	2006	2006	2005
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$(1,469,600)	$ (694,300)	82,600	(1,504,900)
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Amortization of intangibles	19,900	39,900	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)	--
Other	(51,800)	--	--	--
Stock based compensation	4,200	--	369,900	--
Non-cash interest expense	189,800	--	--	--
Warrants issued for marketing activities	--	--	--	18,000
Changes in operating assets and liabilities:				
Accounts receivable	(21,600)	(8,500)	(1,700)	(10,100)
Prepaids and other	(157,700)	--	(67,000)	(800)
Accounts payable	(170,300)	(41,200)	202,700	82,200
Accrued liabilities	1,200	27,800	5,900	3,700
Deferred compensation	7,900	120,400	298,800	297,300
Accrued consulting	6,400	152,100	301,300	265,800
Accrued interest	7,300	160,600	383,500	323,500
Net cash used in operating activities	(1,634,300)	(243,200)	(597,600)	(233,000)
CASH FLOWS FROM INVESTING ACTIVITIES-				
Increase in deposits	(3,000)	--	--	--
Loans to employees	(4,100)	--	(175,900)	--

Net cash used in investing activities	(7,100)	--	(175,900)	--
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of debt	(5,000)	--	--	--
Proceeds from issuance of convertible promissory notes, net of offering costs	--	--	500,000	499,500
Proceeds from the sale of preferred stock, net of offering costs	1,717,300			

Proceeds from the sale of common stock, net of offering costs	6,079,300	--	--	--
Proceeds from exercise of warrants	28,000	--	--	--
Net cash provided by financing activities	7,819,600	--	500,000	499,500
NET INCREASE (DECREASE) IN CASH	6,178,200	(243,200)	(273,500)	266,500
CASH- BEGINNING OF PERIOD	204,800	478,400	478,400	211,900
CASH- END OF PERIOD	$ 6,383,000	$ 235,200	$ 204,900	$ 478,400
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	2,300	--	--	--
Income taxes	$ 800	--	$ 800	--
Common stock issued for settlement of troubled debt	--	--	700,800	--
Conversion of preferred stock into common stock	$ 5,958,200	--	--	--
Common stock received as collection of loans receivable	$ 171,300	--	--	--
Derivative instrument liability	$ 2,041,500	--	--	--

</TABLE>

(See accompanying Notes to Consolidated Financial Statements)

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MARCH 31, 2007 (UNAUDITED) AND MARCH 31, 2006 (UNAUDITED) AND THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

1. NATURE OF OPERATIONS

ORGANIZATION AND NATURE OF OPERATIONS - CNS Response, Inc. (the "Company") was

incorporated in Delaware on July 10, 1984. 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 sold 6,504,765 Units at $1.20 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 $1.80 per share.

2. REVERSE MERGER AND FINANCING

COMPLETION OF MERGER (UNAUDITED)

On January 16, 2007, CNS Response, Inc. (formerly Strativation, Inc), a Delaware corporation (the "Company"), along with CNS Merger Corporation, a California corporation and the Company's wholly-owned subsidiary ("Merger Sub") entered into an Agreement and Plan of Merger (the "Merger Agreement") with CNS Response, Inc, a privately held California corporation ("CNSR California"), pursuant to which CNSR California would be acquired by the Company in a merger transaction wherein Merger Sub would merge with and into CNSR California, with CNSR California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed and CNSR California became a wholly-owned subsidiary of the Company. At the closing, the Company changed its name to CNS Response, Inc.

Accordingly, from a historical perspective, CNSR California was deemed to have been the acquirer in the reverse merger and CNSR California is deemed the survivor of the reorganization. As a result, the consolidated financial statements of the Company presented reflect the historical results of CNSR California prior to the Merger, and of the combined entities following the merger, and do not include the historical financial results of the entity formerly known as Strativation, Inc. Common stock has been retroactively restated to reflect the number of shares received by CNSR California equity holders in the Merger after giving effect to the difference in par value, with the offset to additional paid-in capital. The equity of the Company survives the reorganization. Upon the closing of the reorganization, the Company changed its fiscal year to September 30. All costs associated with the Merger were expensed as incurred.

PRINCIPAL TERMS OF THE MERGER (UNAUDITED)

On March 7, 2007, Merger Sub was merged with and into CNSR California, the separate existence of Merger Sub ceased, and CNSR California continued as the surviving corporation at the subsidiary level. The Company issued 17,827,958 shares of its common stock pursuant to certain exchange ratios set forth in the Merger Agreement to the stockholders of CNSR California in exchange for 100% of the issued and outstanding shares of common stock of CNSR California. Additionally, the Company assumed 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.

Pursuant to the terms of the Merger Agreement, CNS Response, Inc. (formerly Strativation, Inc.) paid an advisory fee of $475,000 to Richardson & Pattel, LLP, the Company's former legal counsel and a principal shareholder, immediately upon the closing of the Merger. The fee has been expensed as a cost of the merger.

Immediately after the closing of the Merger, and without taking into consideration the Private Placement Offering, the issuance of shares of common stock to repay the note to NuPharm Database, LLC and the tendering to the Company of shares of common stock by an officer and certain employees to repay their loans to CNSR California described below, the Company had outstanding 18,696,781 shares of common stock, options to purchase 4,136,103 shares of common stock and warrants to purchase 4,271,414 shares of common stock.

THE PRIVATE PLACEMENT (UNAUDITED)

Immediately following the closing of the Merger, the Company received gross proceeds of approximately $7.0 million 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, the Company sold 5,840,375 Investment Units, at $1.20 per Investment Unit. Each Investment Unit consists of one share of Company common stock, and a five year non-callable warrant to purchase three-tenths of one share of the Company common stock at an exercise price of $1.80 per share. The value of the warrants was determined to be $1,503,600 using the Black-Scholes option pricing model with the following assumptions: a volatility rate of 100%, risk free interest rate of 5%, an expected life of five years and zero dividends. The value of the warrants has been recorded as a liability in accordance with SFAS No. 133 and EITF 00-19. As of March 31, 2007, the value of the warrants had not changed.

In May 2007, the Company completed a second closing of the Private Placement for an additional 664,390 Investment Units. The additional gross proceeds to the Company amounted to $797,300.

As consideration for services rendered further to the Private Placement, the Company's placement agent was issued 83,333 shares of common stock, warrants to purchase 520,381 shares of Company common stock at an exercise price of $1.44 per share and warrants to purchase 156,114 shares of Company's common stock at exercise price of $1.80 per share . The value of the warrants was determined to be $537,900 using the Black-Scholes option pricing model with the following assumptions: a volatility rate of 100%, risk free interest rate of 5%, an expected life of five years and zero dividends. The value of the warrants has been recorded as a liability in accordance with SFAS No. 133 and EITF 00-19. As of March 31, 2007, the value of the warrants had not changed.

REPAYMENT OF 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 (unaudited).

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 (unaudited).

Pursuant to the abovementioned terms, the note payable to NuPharm was converted into 244,509 shares of the Company's Common Stock upon the completion of the merger and private placement described above. Upon conversion, the entire balance of the unamortized prepaid interest was charged to interest expense (unaudited).

LOANS TO OFFICER AND EMPLOYEES

In September 2006, the Company loaned certain officer and employees $167,200 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 above. 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 remaining employees repaid their loans by tendering an aggregate of 64,534 shares of the Company's Common Stock. (unaudited)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION - The consolidated financial statements include the accounts of CNS Response, Inc., an inactive parent company, and its wholly owned subsidiary CNSR California. All significant intercompany transactions have been eliminated in consolidation.

USE OF ESTIMATES - The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, doubtful accounts, intangible assets, income taxes, valuation of equity instruments, 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.

UNAUDITED INTERIM RESULTS - The accompanying consolidated balance sheet as of March 31, 2006, the consolidated statements of operations and the consolidated statements of cash flows for the six months ended March 31, 2007 and 2006, and the consolidated statement of changes in stockholders' equity for the six months ended March 31, 2007, are unaudited. The unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial presentation. The accompanying unaudited consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period.

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 consisted of a purchased database recorded at cost and were 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, or for the six month period ended March 31, 2007.

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.

The Company's comprehensive income (loss) is the same as its reported net income (loss) for the six months ended March 31, 2007 and 2006 (unaudited).

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments--an amendment of FASB Statements No. 133 and 140." SFAS No. 155 eliminates the exemption from applying SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS No. 155 also allows issuers of financial statements to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for all financial instruments acquired or issued after the first fiscal year beginning after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on our consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets--an amendment of FASB Statement No. 140." SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. It also permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under SFAS No. 156, an entity can elect subsequent fair value measurement of its servicing assets and servicing liabilities by class, thus simplifying its accounting and providing for income statement recognition of the potential offsetting changes in fair value of the servicing assets, servicing liabilities, and related derivative instruments. An entity that elects to subsequently measure servicing assets and servicing liabilities at fair value is expected to recognize declines in fair value of the servicing assets and servicing liabilities more consistently than

by reporting other-than-temporary impairments. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 156 did not have a material impact on our consolidated financial statements.

In June 2006, Emerging Issues Task Force Issue No. 06-3, "How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)," or EITF 06-3, was issued. EITF 06-3 requires disclosure of the presentation of taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis as an accounting policy decision. The provisions of this standard are effective for interim and annual reporting periods beginning after December 15, 2006. We do not expect the adoption of EITF 06-3 to have a material impact on our consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, or FIN 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109, Accounting for Income Taxes," which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are continuing to evaluate the possible impact of FIN 48, on our consolidated financial statements.

In September 2006, the SEC released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of the error quantified as the amount by which the current year income statement was misstated (rollover method) or the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (iron curtain method). The guidance provided in SAB 108 requires both methods to be used in evaluating materiality. Immaterial prior year errors may be corrected with the first filing of prior year financial statements after adoption. The cumulative effect of the correction would be reflected in the opening balance sheet with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. The adoption of SAB 108 did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," or SFAS No. 157. This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles, or GAAP, and expands disclosure related to the use of fair value measures in financial statements. SFAS No. 157 does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in GAAP. The Standard emphasizes that fair value is a market-based measurement and not an entity-specific measurement based on an exchange transaction in which the entity sells an asset or transfers a liability (exit price). SFAS No. 157 establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The Statement is to be effective for our financial statements issued in 2008; however, earlier application is encouraged. We believe that SFAS No. 157 will not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans-an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires the recognition of the over-funded or under-funded status of a defined benefit postretirement plan in a company's balance sheet. This portion of the new guidance is effective on December 31, 2006. Additionally, the pronouncement eliminates the option for companies to use a measurement date prior to their fiscal year-end effective December 31, 2008. SFAS No. 158 provides two approaches to transition to a fiscal year-end measurement date, both of which are to be applied prospectively. Under the first approach, plan assets are measured on September 30, 2007 and

then remeasured on January 1, 2008. Under the alternative approach, a 15-month measurement will be determined on September 30, 2007 that will cover the period until the fiscal year-end measurement is required on December 31, 2008. We do not have any defined benefit pension or postretirement plans that are subject to SFAS No. 158. As such, we do not expect the pronouncement to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115," which permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Adoption of the standard is optional and may be adopted beginning in the first quarter of 2007. We are currently evaluating the possible impact of adopting SFAS No. 159 on our consolidated financial statements.

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. 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, CNSR California amended its Articles of Incorporation whereby the number of authorized shares was increased to 100,000,000, of which 80,000,000 were designated as common shares and 20,000,000 were 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 5,993,515 shares of the Company's preferred shares and to change the exercise price for warrants to purchase 1,087,514 shares of the Company's common stock to $0.59 per share. The preferred shares were converted into 5,993,515 shares of the Company's common stock upon the completion of the Merger described in Note 2.(unaudited)

Since at September 30, 2006, the number of authorized shares was 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.

6. STOCKHOLDERS' EQUITY

COMMON AND PREFERRED STOCK

As of March 31, 2007, the Company was authorized to issue 750,000,000 shares of common stock. (unaudited)

As of September 30, 2006, CNSR California was authorized to issue 100,000,000 shares of two classes of stock, 80,000,000 of which was designated as common shares and 20,000,000 of which was designated as preferred shares.

During August and September 2006, CNSR California 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 were no shares of Preferred Stock outstanding as of September 30, 2006. In October 2006, CNSR California issued 5,993,515 shares of its preferred stock in connection with the conversion of notes payable. (See Note 5). All shares of preferred stock were converted into 5,993,515 shares of common stock concurrently with the completion of the Merger. (unaudited)

STOCK-OPTION PLAN

On September 27, 2004, the Company adopted the 2004 Stock Option Plan pursuant to which there were 15,000,000 shares of common stock reserved for issuance and under which the Company may issue incentive stock options, nonqualified stock options, stock awards and stock bonuses to officers, directors and employees. The option price for each share of stock subject to an option was to 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 was an ISO granted to an eligible employee who is a 10% shareholder, the option price for each share of stock subject to such ISO was to be no less than 110% of the fair market value of a share of stock on the date such ISO is granted. Stock options were to 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 was to be five years from the date of grant. ISOs

could be granted only to eligible employees. At March 31, 2007, there were no options outstanding under this plan (unaudited).

In connection with the Merger described in Note 2, the Company assumed the CNSR California stock option plan described below and all of the options granted thereunder at the same price and terms.

On August 3, 2006, CNSR California adopted the CNSR California 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan provides for the issuance of awards in the form of restricted shares, stock options (which may constitute incentive stock options(ISO) or 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 March 31, 2007, there were 4,136,103 options and 183,937 restricted shares outstanding under the 2006 Plan and 5,679,960 shares available for issuance of awards (unaudited).

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 six months ended March 31, 2007 amounted to $4,200 (unaudited),and for fiscal 2006 amounted to $369,900. There were no options issued or outstanding prior to September 2006..

A summary of stock option activity is as follows:

<TABLE>
<CAPTION>

	Number of Shares	Weighted Average Exercise Price
Outstanding at October 1, 2005		
<S>	<C>	<C>
Granted	4,000,403	$ 0.13
Exercised	--	--
Forfeited	--	--
Outstanding at September 30, 2006	4,000,403	$ 0.13
Activity for the six months ended March 31, 2007 (unaudited)		
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
Six months ended March 31, 2007 (unaudited)	--	$ 0.27

</TABLE>

Following is a summary of the status of options outstanding at September 30, 2006:

Exercise Price	Number of Shares	Weighted Average Average Contractual Life	Weighted Average Exercise Price
$0.12	859,270	10 years	$0.12
$0.132	3,112,545	10 years	$0.132
$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.

Following is a summary of the status of options outstanding at March 31, 2007 (unaudited):

Exercise Price	Number of Shares	Weighted Average Average Contractual Life	Weighted Average Exercise Price
$0.12	859,270	10 years	$0.12
$0.132	3,112,545	10 years	$0.132
$0.30	135,700	10 years	$0.30
$0.59	28,588	10 years	$0.59

At March 31, 2007, options to purchase 4,043,603 shares are fully vested; options to purchase 10,000 shares at an exercise price of $0.12 vest over 6 months; and options to purchase 82,500 shares at an exercise price of $0.30 vest over 20 months. (unaudited)

WARRANTS TO PURCHASE COMMON STOCK

At September 30, 2006, there were warrants outstanding to purchase 3,115,154 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.

During the six months ended March 31, 2007, the following additional 3,515,772 warrants were granted and are outstanding as of such date (unaudited):

Warrants to Purchase	Exercise Price	Issued in Connection With:
1,143,587 shares	$ 1.51	Private placement described in Note 12 below
7,921 shares	$ 1.01	To placement agent for private placement described in Note 12 below
4,752 shares	$ 1.812	To placement agent for private placement described in Note 12 below
1,752,113 shares	$ 1.80	Private placement completed immediately after the merger and described in Note 2
467,230 shares	$ 1.44	To placement agent for private placement completed immediately after the merger and described in Note 2
140,169 shares	$ 1.80	To placement agent for private placement completed immediately after the merger and described in Note 2

As described in Note 2, the warrants to purchase 1,892,282 shares of common stock at $1.80 per share and the warrants to purchase 467,230 shares at $1.44 per share were initially recorded as a liability at their fair value. Fair value was computed using the Black-Scholes pricing model. No gain or loss was reported for the six months ended March 31, 2007 as there was no change in fair value recorded. (unaudited)

7. 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 statutory 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.

8. 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 for the years ended September 30, 2006 and 2005, respectively, is as follows:

	2006	2005
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	$ 0.03	$ (0.73)
Diluted net income (loss) per share	$ 0.01	$ (0.73)
Basic weighted average shares outstanding	2,836,049	2,068,823
Dilutive common equivalent shares	30,533,528	--
Diluted weighted average common shares	33,369,578	2,068,823
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

A summary of the net income (loss) and shares used to compute net income (loss) per share for the six months ended March 31, 2007 and 2006, respectively, is as follows (unaudited):

	March 31,	
	2007	2006
Net (loss) for computation of basic net		

(loss) per share	$ (1,469,600)	$ (694,200)
Basic weighted average shares outstanding	12,425,285	2,068,823
Diluted weighted average shares outstanding	12,425,285	2,068,823
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	--	29,583,285
Warrants	4,584,277	2,771,060
Options	4,136,103	--

9. 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 (unaudited).

RENT EXPENSE--The Company leases its headquarters under an operating lease expiring in November 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.

In March 2007, the Company entered into a new lease for its headquarters at the same location expiring in November 2007 and requiring monthly rentals of $3,500. Total rent expense for the six months ended March 31, 2007 and 2006 was $18,000 and $3,600, respectively (unaudited).

10. SIGNIFICANT CUSTOMERS

For the year ended September 30, 2006, five customers accounted for 75% of the Company's revenue and 29% of accounts receivable at September 30, 2006.

For the six months ended March 31, 2007,, six customers accounted for 70% of the Company's revenue and 71% of accounts receivable at March 31, 2007 (unaudited).

11. 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.

12. 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 1,905,978 Units in a private financing resulting in net proceeds of $1877,400. 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.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Delaware General Corporation Law and certain provisions of our certificate of incorporation an 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 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. We do not currently have any indemnification agreements with any of our directors or executive officers.

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.

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

EXHIBIT	NUMBER
Certificate of Incorporation of Registrant, as amended	3.1.1
Bylaws of Registrant	3.2

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The Registrant will bear all expenses of registration incurred in

connection with this offering. The selling shareholders whose shares are being registered will bear all selling and other expenses. The following table itemizes the expenses incurred by the Registrant in connection with the offering. All the amounts shown are estimates except the Securities and Exchange Commission registration fee.

	AMOUNT
Registration fee - Securities and Exchange Commission	$ 506
Legal fees and expenses	$ 50,000
Accounting fees and expenses	$ 10,000
Miscellaneous expenses	$ 5,000
Total	$ 65,506

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

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.

MERGER WITH CNSR CALIFORNIA

On January 16, 2007, we entered into an Agreement and Plan of Merger with CNS Response, Inc., a California corporation (or CNSR California), and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary that was formed to facilitate the acquisition of CNSR California. On March 7, 2007, the merger with CNSR California closed, CNSR California became our wholly-owned subsidiary, and we changed our name from strativation, Inc. to CNS Response, Inc.. 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.

SECURITIES ISSUED IN PRIVATE PLACEMENT

On March 7, 2007, simultaneous with the closing of the Merger, we received gross proceeds of approximately $7,008,450 in the first closing of 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"). On May 16, 2007, we completed a second closing of the Private Placement for an additional 664,390 Investment Units. The additional gross proceeds to us amounted to $797,300.

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 83,333 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 $624,500 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 (520,381 warrants at an exercise price of $1.44 per share), and (ii) 8% of the shares underlying the Investor Warrants sold by Brean Murray in the Private Placement (156,114 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 $87,700 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. After payment of commissions and expenses associated with the offering, we received net proceeds of approximately $6.9 million in the private placement financing.

In connection with the above stock issuances, except as otherwise disclosed we 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 our existing shareholders, one of our creditors, one of our current or former officers or directors, one of our employees, one of our service providers, or an accredited investor with whom we or one of our 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 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 244,509 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.

ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following exhibits are filed herewith:

EXHIBIT NUMBER	EXHIBIT TITLE
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. Incorporated by reference to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 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	2006 CNS Response, Inc. Option Plan. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 10-QSB (File No. 000-26285) filed with the Commission on May 15, 2007. *
4.2	Form of Warrant issued to Investors in Private Placement. Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.

5.1	Opinion of Stubbs Alderton & Markiles LLP
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. Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.5	Form of Indemnification Agreement by and among the Registrant, CNS Response, Inc., a California corporation, and certain individuals, dated March 7, 2007. Incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
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10.7	Form of Registration Rights Agreement by and among the Registrant and certain stockholders of the Company signatory thereto dated March 7, 2007. Incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
21.1	Subsidiaries of the Registrant. Incorporated by reference to Exhibit 21 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
23.1	Consent of Stubbs, Alderton & Markiles LLP (included in Exhibit 5.1)
23.2	Consent of Cacciamatta Accountancy Corporation
24.1	Power of Attorney (included on signature page)

* Indicates a management contract or compensatory plan.

(b) Financial Statement Schedules

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

ITEM 28. UNDERTAKINGS.

(a) RULE 415 OFFERING. The undersigned registrant hereby undertakes to:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

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

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental

change in the information in the registration statement; and notwithstanding the forgoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high-end of the estimated maximum offering range may be reflected in the form of prospects filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time as the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(e) REQUEST FOR ACCELERATION OF EFFECTIVE DATE. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Registration Statement to be signed on its behalf by the undersigned, in the City of Irvine, California, on May 21, 2007.

CNS RESPONSE, INC.
(Registrant)

By: /s/ Leonard J. Brandt

Leonard J. Brandt
Chief Executive Officer, President and Secretary
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each individual whose signature appears below constitutes and appoints Leonard J. Brandt and Horace Hertz, and each of them, his or her true and lawful attorneys-in-fact and agents with full power of substitution, for him or her and in his or her name, place and stead,

in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to sign any registration statement for the same offering covered by the Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his, her or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

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

Signature	Title	Date
/s/ Leonard J. Brandt - ---------- Leonard J. Brandt	President, Chief Executive Officer and Secretary, and Chairman of the Board (Principal Executive Officer)	May 21, 2007
/s/ Horace Hertz - ---------- Horace Hertz	Chief Financial Officer (Principal Financial and Accounting Officer)	May 21, 2007
/s/ David B. Jones - ---------- David B. Jones	Director	May 21, 2007
- ---------- Jerome Vaccaro, M.D. Ma	Director	

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* Indicates a management contract or compensatory plan.

EXHIBIT 5.1

May 21, 2007

CNS Response, Inc.
2755 Bristol St. Suite 285
Costa Mesa, CA 92626

Re: CNS Response, Inc.
Registration Statement on Form SB-2

Ladies and Gentlemen:

At your request, we have examined the Registration Statement on Form SB-2 (the "REGISTRATION STATEMENT") to which this letter is attached as Exhibit 5.1 filed by CNS Response, Inc., a Delaware corporation (the "Company"), in order to register under the Securities Act of 1933, as amended (the "ACT"), the resale by the selling shareholders identified in the prospectus constituting a part of the Registration Statement of an aggregate of 7,355,199 shares of issued and outstanding Common Stock of the Company and 2,627,939 shares of Common Stock of the Company issuable upon exercise of outstanding warrants (the "WARRANTS") issued by the Company, and any additional shares of Common Stock of the Company which may be registered pursuant to Rule 462(b) under the Act (the "SHARES").

We have examined originals or certified copies of such corporate records of the Company and other certificates and documents of officials of the Company, public officials and others as we have deemed appropriate for purposes of this letter. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to authentic original documents of all copies submitted to us as conformed and certified or reproduced copies.

Based on the foregoing, we are of the opinion that (i) the 7,355,199 shares of issued and outstanding Common Stock have been duly authorized, and are validly issued, fully paid and non-assessable and (ii) the 2,627,939 shares of Common Stock issuable upon exercise of the Warrants have been duly authorized and, when issued upon such exercise in accordance with the terms of the Warrants and following receipt by the Company of the consideration therefor, shall be duly and validly issued, fully paid and nonassessable.

We consent to the use of this opinion as an Exhibit to the Registration Statement and to the use of our name in the Prospectus constituting a part thereof. We assume no obligation to inform you of any facts, circumstances, events or changes in the law that may hereafter be brought to our attention that may alter, affect or modify the opinion expressed herein.

Very truly yours,

/s/ Stubbs Alderton & Markiles, LLP

STUBBS ALDERTON & MARKILES, LLP

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use in this Registration Statement on Form SB-2 of our report dated November 15, 2006, relating to the consolidated financial statements of CNS Response Inc., and to the reference to our Firm under the caption "Experts" in the Prospectus of CNS Response, Inc. for the registration of 9,983,138 shares of its common stock.

/s/ CACCIAMATTA ACCOUNTANCY CORPORATION
- --
Cacciamatta Accountancy Corporation
Irvine, California
May 21, 2007