==========

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

FORM 10-K

(Mark one)
[X] Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

or

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

For the transition period from _____ to _____

Commission file number 000-26285

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

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

2755 Bristol St., Suite 285
Costa Mesa, CA 92626
(Address of Principal Executive Offices)(Zip Code)

(714) 545-3288
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [_] No[X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [_] No[X]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

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

Large accelerated filer [_]	Accelerated filer [_]
Non-accelerated filer [_]	Smaller reporting company [X]
(Do not check if smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) Yes [_] No[X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on March 31, 2008, the last business day of the registrant's most recently completed second fiscal quarter was $17,114,221 (based on the closing sales price of the registrant's common stock on that

date).

At January 13, 2009, the registrant had 25,299,547 shares of Common Stock, $0.001 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

==========

CNS RESPONSE, INC.

2008 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 2008 Annual Report on Form 10-K, 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.

ITEM 1. 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 SUBSIDIARIES CNS RESPONSE, INC., A CALIFORNIA CORPORATION ("CNS CALIFORNIA"), COLORADO CNS RESPONSE, INC., A COLORADO CORPORATION ("CNS COLORADO") AND NEURO-THERAPY CLINIC, P.C., A COLORADO PROFESSIONAL MEDICAL CORPORATION AND A WHOLLY-OWNED SUBSIDIARY OF CNS COLORADO ("NTC").

GENERAL

CNS Response, Inc. was incorporated on July 10, 1984, under the name Mammon Oil & Gas, Inc., in the state of Utah. Prior to January 16, 2007, CNS Response, Inc. (then called Strativation, Inc.) existed as a "shell company" with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merge. On January 16, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with CNS Response, Inc., a California corporation ("CNS California"), and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary ("MergerCo") pursuant to which we agreed to acquire CNS California in a merger transaction wherein MergerCo would merge with and into CNS California, with CNS California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed, CNS California became our wholly-owned subsidiary, and on the same date we changed our corporate name from Strativation, Inc. to CNS Response, Inc.

CNS CALIFORNIA

Founded in 2000, and located in Costa Mesa, CNS California's business is focused on the commercialization of a patented system that guides physicians in selecting 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"(R) or "rEEG"(R) represents an innovative approach to identifying effective medications for patients suffering from debilitating behavioral disorders. In this report, we refer to the business conducted by CNS California, which we view as our core operation, as our Laboratory Information Services business. Our Laboratory Information Services business is conducted by eight full time employees.

NEURO-THERAPY CLINIC

In January 2008, through Colorado CNS Response, we acquired all of the outstanding common stock of our largest customer, the Neuro-Therapy Clinic, P.C., a Colorado professional medical corporation ("NTC"). Upon the completion of the transaction, NTC became a wholly-owned subsidiary of ours. NTC operates one of the largest psychiatric medication management practices in the state of Colorado, with nine full time and four part time employees including psychiatrists and clinical nurse specialists with prescribing privileges. Daniel A. Hoffman, M.D. is the medical director at NTC, and, after the acquisition, became our Chief Medical Officer.

NTC, having used rEEG technology extensively in its operations, serves as an important resource in our product development, the expansion of our proprietary database (further described below), our production system development and implementation, along with the integration of our rEEG methodology and services into a medical practice. Through NTC, we also expect to successfully develop marketing and patient acquisition strategies for our Laboratory Information Services business. Specifically, NTC is learning how to

best communicate the advantages of rEEG to patients and referring physicians in the local market. We will share this knowledge and developed communication programs learned through NTC with other physicians using our services, which we believe will help drive market acceptance of our services. In addition, we plan to use NTC to train practitioners across the country in the uses of rEEG technology.

We view our Clinical Services business as secondary to our Laboratory Information Services business, and we have no current plans to expand this business. For this reason, this report focuses on our Laboratory Information Services business.

OUR LABORATORY INFORMATION SERVICES BUSINESS

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, not just the manifestation of symptoms.

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 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:

- ----------

(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.

> "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, we estimate that approximately 10% of patients represent 35-40% of MBHOs' patient costs, with the overwhelming majority deemed treatment-resistant cases. MBHOs are estimated to manage over 210 million lives in the U.S. alone. Magellan, Value Options, United Behavioral Health and CIGNA Behavioral Health are some of the larger managers.(7)

A report from Analysis Group, a national economics consulting firm, prepared for us and available at our website (see http://www.cnsresponse.com/uploads/assets/0000/0080/Analysis_Group_Economic_Impact_of_rEEG.pdf) shows the potential savings that our technology can bring to payers. The Analysis Group study focused on treatment-resistant (TR) patients, who add significantly to treatment costs--more than $8,000 annually, according to a 2004 study by investigators Howard Birnbaum and Paul Greenberg of Analysis Group. "This patient group is so costly because they have almost double the office visits, more than three times the outpatient claims and nearly four times the inpatient claims of patients who are not treatment-resistant," noted Dr. Birnbaum.

The authors of the study found that a sample health plan with 20 million members utilizing rEEG for its 80,000 patients with treatment-resistant mental disorders would save potentially up to 40 percent in behavioral care costs, and approximately $212 million annually in direct health care costs. An even greater savings potential in reduced absence and productivity losses brings the total to over $550 million, illustrating that the impacts of treatment failure are not limited to behavioral health costs, but are in fact even greater for health plans, disability plans, and employers.

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

- ----------

(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).

establishing etiology and finding effective therapy for only a relatively small group of mental abnormalities(9) and has, therefore, necessarily had to rely on symptomatic diagnoses to make course of 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 empirical outcomes-based information treatment guidance tool personalized to the functional neuro-physiological 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, physicians in sixteen 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 probability data for individuals that have brain abnormalities (abnormalities of electrical power distribution in the brain) similar to that of their patient. The clinical results and economics demonstrated in multiple studies completed by either CNS California 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 "CLINICAL VALIDATION-SUMMARY" for a review of existing clinical data.

Over the course of the last twenty years, CNS California and its scientific founders have collected treatment outcomes for patients using various medications where the patients' brain function was first measured with an EEG and 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" or alternatively as our "CNS Database". The rEEG Outcomes Database containes outcomes for over 2000 patients and more than 13,000 treatment trials of medications on these patients.

- ----------

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

Using the rEEG analysis method and the information contained in the rEEG Outcomes Database, we can provide a report (an "rEEG Report") to a Client-Physician identifying medication groups (such as antidepressants, stimulants, anticonvulsants and beta blockers), medication subgroups such as antidepressant subgroups of SSRI's (selective serotonin reuptake inhibitors, an example of which is Prozac), TCA's (tricyclic antidepressants, an example of which is Desipramine), SNRI's (serotonin-norepinephrine reuptake inhibitors, an

example of which is Cymbalta). Further, and most importantly, our 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 "CLINICAL VALIDATION-SUMMARY." 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 Report. The vast majority of subject patients for whom we have created rEEG 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

The rEEG method consists of the following four integrated components:

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

1. Digital Electrocephalogram ("EEG")

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

2. Quantitative Normative Analysis

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

- ----------

(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 more than seventy-five 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 over sixty medications now marketed in the United States for the treatment of Alzheimer's, Parkinson's Disease, migraines and Epilepsy.(14)

- ----------

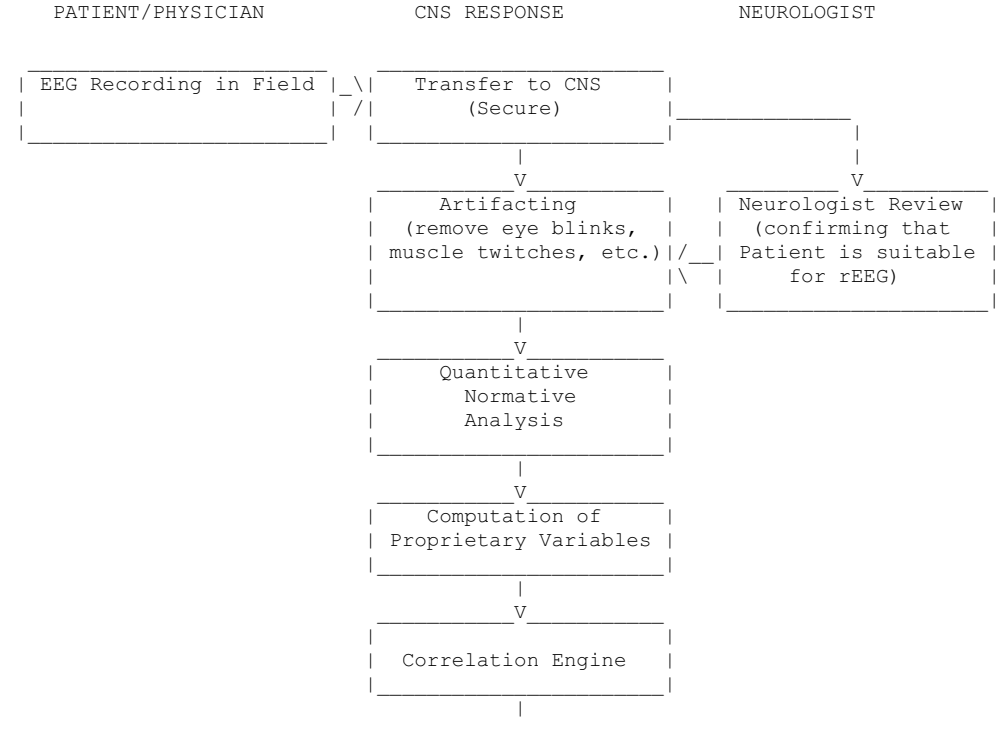
(14) Drug Reference for FDA Approved Psychiatric Drugs, http://neurotransmitter.net/drug_reference.html.

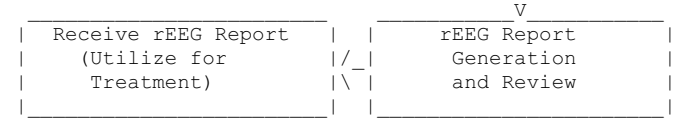
TREATMENT DECISIONS MADE BY LICENSED PROFESSIONALS

With the exception of our subsidiary, the Neuro-Therapy Clinic based in Denver, CO, 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 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 Reports are responsible for exercising their independent medical judgment in determining the specific application of the information contained in the rEEG 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 Report delivery. Previously, upon receipt of the EEG, a rEEG Report was generally delivered to the referring physician in 3-4 days. In December, 2008 we introduced a new process system that is delivering most reports with one day turnaround. We think this is a major advantage to patients and of increased convenience to the physician.





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 in our Type I rEEG Report.

OUR TECHNOLOGY AND INTELLECTUAL PROPERTY

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.

CNS California was incorporated 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 CNS California'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.

rEEG PATENTS

We have two issued U.S. Patents which together provide us with the right to exclude others from using our rEEG technology. In addition, these patents cover the analytical methodology we use 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, and have issued patents in Australia and Israel.

rEEG TRADEMARKS

"Referenced-EEG" and "rEEG" are registered trademarks of CNS California in the United States. 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 over 13,000 clinical outcomes across 2,000 patients who had psychiatric or addictive problems. The 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, we 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.

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.

We currently offer rEEG 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, all of the rEEG 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 sixteen 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-SUMMARY." 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 Reports ordered by client-physicians they report as being 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 plans 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. We estimate that these psychiatrists treat a large proportion of the treatment resistant patients, which comprises 2 million people in any given year or a potential annual market of greater than $1 billion with present pricing.

CORPORATE/ MANAGED BEHAVIORAL HEALTH ORGANIZATIONS/MANAGED CARE PAYERS

Currently, only a small portion of our rEEG 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 greater than $500 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 $2.0 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, we contract with a neurophysiologist to supply a conventional review of and commentary on a patient's EEG test. We also contract 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 are evaluating bringing both of these functions in-house during 2009, thereby reducing our costs per test, and improving our margins.

CLINICAL VALIDATION- SUMMARY

CONTROLLED TRIALS	POPULATION	rEEG GROUP EFF.	CONTROL GROUP
ADD & Depression Blinded Trial (1,3)	100	68%	22%
VA Blinded Study (3,5)	13	85%	17%
Dr. Greenblatt Scientific Pres APA 2008 (7)	13	92%	0
Treatment Resistant Depression Study - Pilot	18	58%	27%

CASE SERIES	POPULATION	EFFICACY
CIGNA-Atlanta Pilot (3)	56	70%
Dr. Davis Case Series (3)	15	100%
Monte Nido Case Series (2,3)	104	83%
Dr. Hamilton Case Series (3)	34	78%
Dr. Hoffman Case Series (3)	74	76%
Rancho L'Abri Case Series (3,4)	58	93%

Dr. Schiller Case Series (7)	19	89%
TOTAL (ALL STUDIES)	504	78%

1. Clinical EEG and Neurosciences, 1995
2. NCDEU Poster at Annual Meeting 2004
3. APA Poster at Annual Meeting 2005
4. APA Poster at Annual Meeting 2005
5. Amer. College Phys. & Surg. 2007
6. CPDD Poster at Annual Meeting 2008
7. 2008 US Psychiatric & Mental Health Congress 2008

The table above identifies all of the studies that have been reported involving use of rEEG in medication guidance. In total, four comparative control studies and seven uncontrolled case series have evaluated rEEG's ability to predict medication response in 473 patients (excludes non-rEEG controls). These studies document rEEG's clinical utility to guide treating psychiatrists in their pharmacotherapy selection process with difficult to treat patients. Summarizing across these studies, rEEG guided pharmacotherapy:

- Resulted in positive treatment responses in 78% of patients (371 of 473).
- Was consistent with effectiveness rates exceeding 69% across numerous psychiatrists practicing in diverse settings and exceeded 58% on studies restricted to treatment-resistant patients.
- Often involved medications, and medication combinations, that were non-intuitive.
- Resulted in sustainable treatment gains with all effectiveness ratings conducted 3 to 24 months following treatment initiation compared to STAR*D's 64.6% and 71.1% relapse rates within several months following an initial step 3 or step 4 remission.
- Enhanced treatment compliance and decreased dropout rates. In the five studies that reported such rates, 15% (27 of 180) of rEEG patients were not medication compliant and dropped out of treatment compared to STAR*D's 44.8% and 60.1% dropout rates during steps 3 and 4 despite receiving exemplary free, acute and continuing care.
- Evidenced real-world clinical efficacy with all studies done in naturalistic practice settings.

CLINICAL VALIDATION - 2008

Two new studies were published in scientific posters on October 30, 2008.

1. TREATMENT REFRACTORY EATING DISORDER PATIENTS WITH COMORBID DEPRESSION

Patient-Controlled Long Term Cohort Study

This study reports on a cohort of 13 patients with severe eating disorders (6 anorexia nervosa, 4 bulimia nervosa, 3 eating disorder - not otherwise specified) who had been under care of the principle investigator for two years prior to receiving rEEG-guided pharmacotherapy and then followed for a minimum of six months to two years. All patients had been hospitalized at least once and the group totaled 53 hospitalizations over 999 inpatient or partial residential days at a cost estimate of $1.75MM in the previous 24 months. At baseline Clinical Global Severity (CGS) was rated between severely ill and markedly ill and averaged 5.54 +/- . At 8 weeks CGS scores had decreased to an average of 2.85 +/- 1.14, and at 6 months an average of 2.23 +/- .83, a rating between mildly ill and borderline mentally ill (see figure 1 in Exhibit 99.1, which is incorporated herein by reference). These changes were significant with ANOVA of p<.001. Clinical Global Improvement (CGI) at 8 weeks was rated an average of 1.77 +/- .72 and at six months of 1.23 +/.44 representing an average CGI between much improved (rating of 2) and very much improved (rating of 1) (see figure 2 in Exhibit 99.1, which is incorporated herein by reference).

FIGURES 1 & 2 (see Exhibit 99.1)

These patients all had a co-occurring diagnosis of major depression disorder. At baseline the 21-item Hamilton Depression Rating Scale (HDRS) averaged 39.8 +/- 5.7. By week 8 scores decreased to an average of 13.2 +/- 6.9 and to 8.5 +/- 5.2 each statistically significant at p<,001 by ANOVA. Significant improvement was recorded in virtually every patient (see figure 3 in Exhibit 99.1, which is incorporated herein by reference).

FIGURE 3 (See Exhibit 99.1)

The principle investigator utilized 14 different medications from six different classes in this study. His concluding comments noted that, "the diversity of medications successfully utilized in treatment of this dually diagnosed cohort extended beyond the available literature and our own clinical experience. It is one of the key findings of the study. Without objective physiologic guidance, implementing such a broad based strategy would be extremely difficult."

ANTIDEPRESSANTS(n*)	ANTICONVULSANTS (n)	STIMULANTS (n)	MAOI's (n)
Bupropion (4)	Lamotragine (3)	Amphetamine (2)	Selegiline (1)
Duloxetine (2)	Oxcarbazepine (3)	D-Amphetamine (2)	ANTIPSYCHOTICS
Nortriptyline (1)	Gabapentin (5)	Methlpheridate (2)	Arpiprazole (1)
Fluoxetine (1)	Divalproex (1)		BETA BLOCKERS
			Metoprolol (1)

This study is an unusual effort to allow patients to serve as their own control in a comparison of treatment results from the same treating physician and same treatment facilities with the only difference being pharmacotherapy as guided by rEEG. It suffers from a lack of blind, but benefits from greater control of confounding factors generally uncontrolled in two arm studies by virtue of the long term two year documented treatment history and the minimum of six month and up to two year follow up. It is the second study to report on benefits of rEEG in this difficult population.

2. MULTI-SITE RANDOMIZED BLINDED CONTROLLED STUDY OF TREATMENT RESISTANT DEPRESSIVE PATIENTS

This study reports on eighteen adult patients who had failed to adequately respond to three or more previous medication treatment regimens. Patients were treated with pharmacotherapy guided by rEEG or the Texas Medication Algorithm Project ("TMAP") depression guidelines. Results compared 13 patients where these two guides differed in therapeutic guidance. With five other patients, the guided therapies were equivalent.

Where rEEG and TMAP guidance differed, the 7 rEEG guided patients showed a mean improvement in QIDS (Quick Inventory of Depressive Symptomalogy) of 39.5%, over twice as much as patients guided by TMAP who showed a mean improvement of 14.5% (see figure 4 in Exhibit 99.1, which is incorporated herein by reference). Using all measurement over a 12 week period this showed a Generalized Estimating Equation (GEE) of $p<.11$. Mean improvement in the Q-LES-Q (Quality of Life Enjoyment and Satisfaction Questionnaire) was 37%, or an absolute improvement score of 14.9, for rEEG guided patients, over twice as great as the 16%, or an absolute improvement score of 6.8, for TMAP guided patients showing a GEE significance of $p<.038$ (see figure 5 in Exhibit 99.1, which is incorporated herein by reference).

FIGURES 4 & 5 (See Exhibit 99.1)

The two measures combined (see figure 6 in Exhibit 99.1, which is incorporated herein by reference) show 7 of 12 (58%) rEEG-guided patients (three that TMAP treatment was equivalent) demonstrating greater than 50% improvement in QIDS or an absolute improvement score of 25 for Q-LES-Q and no patients guided by TMAP except when rEEG treatment was equivalent having exceeded these standards (total TMAP is 3 of 11 or 27%).

FIGURE 6 (See Exhibit 99.1)

This study is a pilot that guided the design of a larger multi-site treatment-resistant depression study that is now underway.

OTHER NOTABLE STUDIES IN 2008

This past year, the Center for Health Economics, Epidemiology, and Science Policy at United BioSource Corporation, a global pharmacoeconomic research firm and a firm experienced in providing evidence-based review of innovative healthcare technologies, conducted a study, entitled COMPARING LEVELS OF EVIDENCE FOR TREATMENT OF TREATMENT-RESISTANT DEPRESSION WITH REFERENCED-EEG(R) TO CURRENT PRACTICE. This study analyzed published studies on treatment resistant depression (TRD), and modeled the evidence for Referenced-EEG (rEEG) against evidence for currently reimbursed therapies. The study is available on the CNS Response website, www.cnsresponse.com.

The study concluded, "Evidence supporting rEEG appears superior to that supporting APA (American Psychiatric Association) or TMAP (Texas Medication Algorithm Project) treatment guidelines. The findings of this project provide a compelling basis for the consideration of rEEG as a beneficial modality of medication selection for the treatment of TRD. These findings may warrant the consideration of rEEG for inclusion in treatment guidelines and perhaps a basis for re-imbursement."

CLINICAL VALIDATION - PRE-2008

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

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>
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%

</TABLE>

ADD/DEPRESSION STUDY

Prospective study with retrospective analysis.

EFFICACY: >80%

Date: 1995. The initial formalized trial consisted of 100 patients of which 46 were diagnosed with ADD and 54 with depression. Conventional thought would have anticipated that the ADD patients would have responded to the stimulants and the depressed patients would have responded to the antidepressants. In this study, those that failed to respond to conventional treatment were treated with non-conventional medications. rEEG correctly identified which patients would respond to which medications over 68% of the time. This study was published in Clinical Electroencephalography.(16)

(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.

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 (85%). 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.

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, 70% of patients were reportedly responsive to identified treatments.

PHYSICIAN CASE SERIES

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

MONTE NIDO RESIDENTIAL TREATMENT CENTER

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

HAMILTON-NEWPORT BEACH CASE SERIES

Conducted by Dr. Jim Hamilton, a Physician in Newport Beach, CA. In this study, 34 treatment-resistant patients medicated based on information provided in rEEG Reports were followed and rated. 19 of the 34 patients had addictive disorders. Only 28 of the 34 cases were analyzed due to the fact that the balance were not available for follow-up. Of the 28 analyzed, in 22 of these 28 cases rEEG was judged to be essential or very helpful in their treatment. In 14 out of these 28 cases, where the rEEG was judged essential, Dr. Hamilton reported that rEEG had directed him "to combinations of medicines that one would never find, or would take years to find after nothing else had worked." In the 19 addiction cases, 4 were lost to follow-up, but in the 15 that were followed, rEEG was judged essential or very helpful in 14 (78%) of the cases.

HOFFMAN-DENVER CASE SERIES

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

DAVIS-ATLANTA CASE SERIES

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

RANCHO L'ABRI DUAL DIAGNOSIS

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

OUR BUSINESS PLAN - LABORATORY INFORMATION SERVICES

OUR STRATEGY

Our strategy is to provide rEEG analysis in a relationship with a physician that is analogous to that of a reference laboratory.

In 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 2010. We envision this introduction will have elements of pushing demand for rEEG via physician education and pulling demand for rEEG through consumer education. Certain initiatives which are being considered for 2009 include:

1. EXPAND OUR GROUP OF CLIENT-PHYSICIANS TO INCLUDE MOST MAJOR US CITIES. We expect this goal to be accomplished some time in 2009.

2. CONDUCT PILOT PROGRAMS WITH CORPORATE AND MANAGED CARE PAYERS. Payer's reimbursement is encouraged when new technology crosses a threshold of being "evidence-based" and economically compelling. As discussed earlier, third party consulting firms have determined that rEEG technology has crossed these threshholds. The Center for Health Economics, Epidemiology, and Science Policy at United BioSource Corporation has opined that evidence supporting rEEG use in treatment resistant depression was superior to the guidelines of the American Psychiatric Association which serves as a reimbursement basis for many payers. The Analysis Group's study concluded the use of rEEG in multiple diagnosis with patients considered treatment resistant would result in very significant savings to payers in both the total health care cost and behavioral health cost of these patients. Since announcing these results payers have expressed significant interest in piloting the use of rEEG. Multiple discussions on organizing such pilots are underway.

3. COMPLETE CURRENT MULTI-SITE AND CONDUCT ADDITIONAL ACADEMIC TRIALS. We are conducting a 120 patient, controlled, blinded, and randomized clinical study of patients suffering from treatment resistant depression. The study is being conducted at Stanford, Cambridge Hospital-Harvard, McLean Hospital-Harvard, University of California - Irvine, Rush University, Cornell University and a number of commercial trial sites. This study follows a pilot study reported on in

October 2008, the results of which appear in the section "Clinical Validation - 2008. This study will conclude in 2009 and if this trial demonstrates similar results to that of the pilot, we believe this study will have a significant impact on the acceptance of rEEG as enhancing guidance of hard to treat depression patients.

4. PROVIDE FOUNDATION FOR MARKET ADOPTION. Completion of our academic studies along with the already completed third party economic analysis and evidence-based analytical review will provide the foundation for developing market adoption of our reports. Many of the principal investigators in our treatment-resistant depression study now underway are recognized thought leaders in psychiatry. In the area of marketing we have chosen to delay expansion of our staff, until completion of this trial.

MARKET INTRODUCTION

After accomplishing our immediate goals of completing the multisite depression study, expanding our rEEG experienced physicians to most of the major US cities and reaching agreement for pilot trials with payers, we will begin aggressive national introduction of rEEG. We plan to accomplish this introduction by using the following marketing techniques:

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 Reports, we can offer free trials to physicians to encourage them to begin to experience the benefits of rEEG. Our current program offers Physicians three (3) 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 us 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. We also believe the internet will allow major news and testimonials to replay and advance awareness quickly. We also expect to be able to encourage word of mouth through this medium.

Patient 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 us.

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 October 2008, Daniel Hoffman, our Chief Medical Officer, and Len Brandt, our Chief Executive Officer, collaborated to produce a scientific poster at the 2008 US Psychiatric and Mental Health Congress that analyzed a subset of child depression cases and suggested that 3 out of 4 children with depression are not likely to respond to standard first line antidepressant treatment, thus demonstrating the value of rEEG with children and adolescents.

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. To advance that goal, we acquired the Neuro-Therapy Clinic of Denver, CO this past fiscal year. We expect to export to other Centers of Excellence in the United States the strategies used at the Neuro-Therapy Clinic for marketing their capability in the Denver community and optimizing implementation of rEEG in the process flow of the clinic.

GOVERNMENT

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

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

RESEARCH AND DEVELOPMENT

We will continue to enhance, refine and improve the accuracy of our CNS Database and rEEG through expansion of the number of medications covered by our rEEG Reports, expansion of our biomarkers, refinement of our biomarker system, and by reducing the time to turnaround a report to the physician.

OUR BUSINESS PLAN - PHARMACEUTICAL DEVELOPMENT AND ADVANCEMENT

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

OUR STRATEGY

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

- ----------

(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).

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 have 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.

- ----------

(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).

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 SIDE EFFECTS OF MEDICATIONS USED FOR OTHER MEDICAL PURPOSES.

"Cancer fog" is a colloquial term used to describe the response of a

patient or care-givers response to the stresses and perhaps the medications associated with cancer therapeutics. For patients, these effects appear to be particularly specific to certain chemotherapeutic agents.

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

COMPARABLE COMPANIES, COMPETITION AND INDUSTRY DEVELOPMENTS RELATING TO OUR LABORATORY INFORMATION SERVICES BUSINESS

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:

- BIOBEHAVIORAL DIAGNOSTICS COMPANY (www.biodx.com) - quantifies motion 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

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 provided by us, 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. 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), an 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.

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. This device has received pre-marketing approval from the Food and Drug Agency for application in depression.

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

We do not believe that sales of our Laboratory Information Services, including our rEEG Reports, are subject to regulatory pre-market approval. However, we received a "warning letter" from the FDA on April 10, 2008 in which the FDA indicated it believed, based in part on the combination of certain marketing statements it read on our website, together with the delivery of our rEEG Reports, that we were selling a software product to aid in diagnosis, which constituted a "medical device" requiring pre-market approval and clearance by the FDA pursuant to the Federal Food, Drug and Cosmetic Act (the "Act"). We responded to the FDA on April 24, 2008 indicating that we believed it had incorrectly understood our product offering, and clarified that the Laboratory Information Services were not diagnostic and thus did not constitute a medical device. On December 14, 2008, the FDA again contacted us and indicated that based upon its review of our description of our intended use of the rEEG Reports on our website, it continued to maintain that the rEEG Reports were medical devices. In response to the FDA communications, we have made a number of changes to our website and other marketing documents to reflect that rEEG is a service to aid in medication selection and is not a diagnosis aid. Based upon our regulatory counsel's guidance, and our most recent response to the FDA, we believe we will resolve this matter without further regulatory compliance.

Even if the sale of our Laboratory Information Services are not subject to regulatory approval, 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 we do not resolve the status of our Laboratory Information Services with the FDA, or 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.

ITEM 1A. RISK FACTORS

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS REPORT 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 THE MONEY YOU PAID TO PURCHASE OUR COMMON STOCK.

RISKS RELATED TO OUR COMPANY

OUR CORE LABORATORY INFORMATION SERVICES BUSINESS HAS A LIMITED OPERATING HISTORY, MAKING IT DIFFICULT TO EVALUATE OUR FUTURE PERFORMANCE.

Our operating subsidiary which conducts our core Laboratory Information Services business, CNS California, was incorporated in 2000 and therefore has a limited operating history. Investors therefore have limited substantive financial information relating to our core business to evaluate an investment in our company. 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.

IF OUR rEEG 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 Reports, based on our methodology in 2000. To date, we have not received widespread market acceptance of the usefulness of our rEEG Reports in helping psychiatrists and physicians inform their treatment strategies for patients suffering from behavioral and/or addictive disorders. If we fail to achieve widespread market acceptance for our rEEG Reports, we will not be able to grow our revenues, which could negatively impact our stock price.

OUR CLINICAL SERVICES BUSINESS GENERATES THE MAJORITY OF OUR REVENUE, AND ADVERSE DEVELOPMENTS IN THIS BUSINESS COULD NEGATIVELY IMPACT OUR OPERATING RESULTS.

Our Clinical Services business, which we view as ancillary to our core Laboratory Information Services business, currently generates the majority of our revenue. In the event that NTC is unable to sustain the current demand for its services because, for instance, the company is unable to maintain favorable and continuing relations with its clients and referring psychiatrists and physicians or Daniel Hoffman is no longer associated with NTC, our revenues could significantly decline, which could adversely impact our operating results and our ability to implement our growth strategy.

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 Reports and other products and/or services that we may offer in the future that are based on our patented methodology;
- the effectiveness of new marketing and sales programs;
- turnover in our direct sales force;
- changes in management;
- the introduction of products or services that are viewed in the marketplace as substitutes for the services we provide;
- communications published by industry organizations or other professional entities in the psychiatric and physician community that are unfavorable to our business;
- the introduction of regulations which impose additional costs on or impede our business; and
- 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 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.

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

We have not generated significant revenues or become profitable, may

never do so, and may not generate sufficient working capital to cover costs of operations. We intend to fund our operations and capital expenditures from revenues, our cash on hand and the net proceeds of our private placement that we concluded in May of 2007. As of September 30, 2008, we had approximately $2.0 million in cash and cash equivalents at hand which we believe are sufficient funds to finance the cost of our operations, our operating and management infrastructure, and planned expansion for 6 months. 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 relating to our rEEG technology, individuals seeking treatment for behavioral health disorders may seek alternative treatment methods, which could negatively impact our sales and profitability.

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

Our belief in the efficacy of our 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 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 Reports, may not increase as we anticipate, which would harm our operating results and stock price.

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, WE MAY BE UNABLE TO INCREASE OUR SALES, AND IN SUCH INSTANCES OUR PROFITABILITY WOULD BE HARMED.

Our relationships with psychiatrists and physicians are critical to the growth of our Laboratory Information Services business. We believe that these relationships are based on the quality and ease of use of our rEEG 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 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 Reports, psychiatric professionals must recommend and endorse them. We may not obtain the necessary recommendations or endorsements from this community. Acceptance of our rEEG Reports depends on educating psychiatrists and physicians as to the benefits, clinical efficacy, ease of use, revenue opportunity, and cost-effectiveness of our rEEG Reports and on training the medical community to properly understand and utilize our rEEG Reports. If we are not successful in obtaining the recommendations or endorsements of psychiatrists and other physicians for our rEEG Reports, 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 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 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.

Our primary business is the sale of rEEG 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 and volunteers into clinical trials;
- lower than anticipated retention rates of patients and volunteers in clinical trials;
- negative results from clinical trials for any of our potential

products; and

- failure of our clinical trials to demonstrate the efficacy or clinical utility of our potential products.

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

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

We currently rely on a limited number of employees to market and promote our rEEG Reports. 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 Reports by psychiatrists and physicians and higher additional employees for this purpose. 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 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 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, as well as issued patents in Australia and Israel, 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 fall outside the scope of our claimed subject matter but that can be used in the treatment of behavioral health disorders.

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

As discussed in Item 1 of this report under the heading "Government Regulation", we do not believe that sales of our Laboratory Information Services, including our rEEG Reports, are subject to regulatory approval. However, federal, state and foreign laws and regulations relating to the sale of our rEEG 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 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 business would be significantly harmed.

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.

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 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 Chief Executive Officer and Secretary, and others. Because of their ability and experience, if we lose one or more of the members of our senior management or other key employees, our ability to successfully implement our business strategy could be seriously harmed.

We intend to carry key man life insurance on Leonard Brandt in an amount of $2.0 million, payable to the company. We do not carry key man life insurance on any of our other key employees. We do not have employment agreements in place with most of our executives and key employees, and each may terminate their employment upon notice and without cause or good reason. 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, 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 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 Reports, involve the risk of serious injury or death. While we do not treat patients or determine whether treatment that is guided by rEEG 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 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 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 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 REPORTS, OUR REVENUE AND PROSPECTS FOR PROFITABILITY WILL 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 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 Reports, which will discourage psychiatrists and physicians from utilizing the information services we provide. We may need to conduct studies in addition to those we have already accounced 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.

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 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 through our ownership of the Neuro-Therapy Clinic or by providing administrative and ancillary services in connection with our rEEG Reports. These parties may also assert that selling our rEEG Reports for a portion of the patient fees constitutes improper fee-splitting. If asserted, such claims could subject us to civil and criminal penalties, could result in our contracts being found legally invalid and unenforceable, in whole or in part, or could result in us being required to restructure our contractual arrangements, all with potentially adverse consequences to our business and our stockholders.

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 Reports, as well as in our Clinical Services business, 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.

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 the Over-the-Counter Bulletin Board under the symbol CNSO.OB. There is currently no broadly followed, established trading market for our Common Stock and 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. Also, as a result of this lack of trading activity, the quoted price for our Common Stock on the Over-the-Counter 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 LARGER 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:

- 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 our post-effective amendment to our Registration Statement on Form S-1, 9,978,676 shares of Common Stock became eligible for resale, including 2,627,939 shares of our Common Stock issuable upon the exercise of certain warrants. 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.

Other holders of our Common Stock 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. Such shares may also be eligible for resale pursuant to Rule 144 of the Securities Act of 1933, as amended.

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

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 therefor.

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 if current price and volume information with respect to transactions in such securities is provided by the exchange). 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.

Our officers, directors and principal stockholders (greater than 5% stockholders) collectively control approximately 60% 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.

Our officers, directors and principal stockholders (greater than 5% stockholders) collectively control approximately 60% 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, which could cause our stock price to decline. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our Common Stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We currently lease space for our headquarters and Laboratory Information Services business under a lease agreement which expires in May 2009. The facility is approximately 1900 sq. ft, and is located in Costa Mesa, California.

We also lease space for our Clinical Services operations under a lease

which expires in February 2010. The facility is approximately 3,500 square feet, and is located in Denver, Colorado. In addition, we sublease approximately 1,000 square feet of space at a site adjacent to the primary suite on a month-to-month basis for our Clinical Services business.

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.

ITEM 3. 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, would have a material adverse effect on our results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders in the quarter ended September 30, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

COMMON STOCK

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

	HIGH*	LOW*
YEAR ENDED SEPTEMBER 30, 2007		
First Quarter	$8.50	$0.55
Second Quarter	$4.50	$0.55
Third Quarter	$2.50	$1.05
Fourth Quarter	$1.40	$0.70
YEAR ENDED SEPTEMBER 30, 2008		
First Quarter	$0.90	$0.75
Second Quarter	$2.25	$0.75
Third Quarter	$3.00	$0.55
Fourth Quarter	$0.75	$0.51

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

On January 6, 2008, the closing sales price of our common stock as reported on the OTC Bulletin Board was $0.90 per share. As of January 6, 2008, there were 354 record holders of our common stock. The number of holders of record is based on the actual number of holders registered on the books of our transfer agent and does not reflect holders of shares in "street name" or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

DIVIDEND RIGHTS

We have not paid or declared cash distributions or dividends on our common stock and 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.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES PROVIDED UNDER PART II, ITEM 8 OF THIS ANNUAL REPORT ON FORM 10-K. THIS DISCUSSION SUMMARIZES THE SIGNIFICANT FACTORS AFFECTING THE CONDENSED CONSOLIDATED OPERATING RESULTS, FINANCIAL CONDITION AND LIQUIDITY AND CASH FLOWS OF CNS RESPONSE, INC. FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2008 AND 2007. 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" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES AND ARE BASED ON THE BELIEFS AND ASSUMPTIONS OF OUR MANAGEMENT AS OF THE DATE HEREOF BASED ON INFORMATION CURRENTLY AVAILABLE TO OUR MANAGEMENT. USE OF WORDS SUCH AS "BELIEVES," "EXPECTS," "ANTICIPATES," "INTENDS," "PLANS," "ESTIMATES," "SHOULD," "FORECASTS," "GOAL," "LIKELY" OR SIMILAR EXPRESSIONS, INDICATE A FORWARD-LOOKING STATEMENT. FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE RISKS, UNCERTAINTIES AND ASSUMPTIONS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS WE MAKE. SEE "RISK FACTORS" ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K FOR A DISCUSSION OF CERTAIN RISKS ASSOCIATED WITH OUR BUSINESS. WE DISCLAIM ANY OBLIGATION TO UPDATE FORWARD-LOOKING STATEMENTS FOR ANY REASON.

OVERVIEW

We are a life sciences company with two distinct business segments. Our Laboratory Information Services business, which we consider our primary business, is 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. Our Clinical Services business operated by Neuro-Therapy Clinic, P.C. ("NTC") is a full service psychiatric practice.

LABORATORY INFORMATION SERVICES

In connection with our Laboratory Information Services business, we have developed an extensive proprietary database (the "CNS Database") consisting of over 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(R) ("rEEG(R)"), this patented technology allows us to create and provide simple reports ("rEEG 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 abnormalities. The rEEG process then identifies a set of patients having similar abnormalities as recorded in our CNS Database and reports on historical relative medication success for this stratified group. Upon completion, the physician is provided the analysis in a report detailing and ranking classes of agents (and specific agents within the class) by treatment success for patients having similar abnormal electrophysiology.

Our business is focused on increasing the demand for our rEEG services. 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 payers, expansion of our sales force and increased marketing efforts.

CLINICAL SERVICES

In January 2008, we acquired our largest customer, the Neuro-Therapy Clinic, P.C. ("NTC") located in Colorado. Upon the completion of the transaction, NTC became a wholly-owned subsidiary of ours. NTC operates one of the largest psychiatric medication management practices in the state of Colorado, with nine full time and four part time employees including psychiatrists and clinical nurse specialists with prescribing privileges. Daniel A. Hoffman, M.D. is the medical director at NTC, and, after the acquisition, became our Chief Medical Officer.

NTC, having performed a significant number of rEEG's, serves an important resource in our product development, the expansion of our CNS

Database, production system development and implementation, along with the integration of our rEEG services into a medical practice. Through NTC, we also expect to successfully develop marketing and patient acquisition strategies for our Laboratory Information Services business. Specifically, NTC is learning how to best communicate the advantages of rEEG to patients and referring physicians in the local market. We will share this knowledge and developed communication programs learned through NTC with other physicians using our services, which we believe will help drive market acceptance of our services. In addition, we plan to use NTC to train practitioners across the country in the uses of rEEG technology.

We view our Clinical Services business as secondary to our Laboratory Information Services business, and we have no current plans to expand this business.

BUSINESS OPERATIONS

Since our inception, we have generated significant net losses. As of September 30, 2008, we had an accumulated deficit of $16.7 million. We incurred operating losses of $5.5 million and $3.3 million for the fiscal years ended September 30, 2008 and 2007, respectively. We expect our net losses to continue for at least the next several years. We anticipate that a substantial portion of our capital resources and efforts will be focused on research and development, scale up of our commercial organization, and other general corporate purposes. Research and development projects include the completion of clinical trials which are essential to validate the efficacy of our products and services relating to our rEEG technology across different type of behavioral disorders, the enhancement of the CNS Database and, to a lesser extent, the identification of new medication that are often combinations of approved drugs.

OUR HISTORY

Prior to January 16, 2007, CNS Response, Inc. (then called Strativation, Inc.) existed as a "shell company" with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merge. On January 16, 2007, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with CNS Response, Inc., a California corporation ("CNS California"), and CNS Merger Corporation, a California corporation and our wholly-owned subsidiary ("MergerCo") pursuant to which we agreed to acquire CNS California in a merger transaction wherein MergerCo would merge with and into CNS California, with CNS California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed, CNS California became our wholly-owned subsidiary, and on the same date we changed our corporate name from Strativation, Inc. to CNS Response, Inc.

PRINCIPAL TERMS OF THE MERGER

At the Effective Time of the Merger (as defined in the Merger Agreement, as amended on February 23, 2007), MergerCo was merged with and into CNS California, the separate existence of MergerCo ceased, and CNS California continued as the surviving corporation at the subsidiary level. We issued an aggregate of 17,827,958 shares of our common stock to the stockholders of CNS California in exchange for 100% ownership of CNS 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 CNS California.

Immediately prior to the closing of the Merger, we had outstanding 868,990 shares of common stock. Immediately after the closing of the Merger, and without taking into consideration the Private Placement offering described below, we had 18,696,948 outstanding shares of common stock, and options and warrants to purchase 8,407,517 shares of common stock.

PRIVATE PLACEMENT TRANSACTION

On March 7, 2007, simultaneous with the closing of the Merger, we received gross proceeds of approximately $7,008,450 in a private placement transaction (the "Private Placement") with institutional investors and other high net worth individuals ("Investors"). On May 16, 2007, we received additional gross proceeds of $797,300 from the second closing of the Private Placement. Pursuant to Subscription Agreements entered into with these Investors, we sold 6,504,758 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 Warrants"). After commissions and expenses, we received net proceeds of approximately $6,748,400 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 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 (520,380 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 $88,000 in costs, fees and expenses incurred by Brean Murray in connection with the Private Placement.

REGISTRATION RIGHTS AGREEMENTS

Under the terms of the Subscription Agreements between us and the Investors in the Private Placement, we were obligated to file a Registration Statement on Form SB-2 with the Securities and Exchange Commission (the "SEC")

within 45 days following the closing (the "Registration Statement") to permit the resale of the shares of common stock sold in the Private Placement and purchasable under the warrants sold in the Private Placement. The Company's Registration Statement on Form SB-2 was filed on May 22, 2007 with the Securities and Exchange Commission.

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 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. The Company's Registration Statement on Form SB-2 became effective on June 22, 2007.

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 were also obligated to include up to 767,103 shares of our common stock on the Registration Statement described above. The registration rights attaching to the shares held by these stockholders are not transferable with such shares. Our former 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. A total of 484,250 shares of our Common Stock held by one of our former majority shareholder were registered for resale on our registration statement on Form SB-2.

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 CNS California Series A Preferred Stock, CNS California Series B Preferred Stock and certain shares of CNS 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.

After the completion of the Private Placement and the Merger, we had an aggregate of 25,303,462 shares of common stock outstanding, with the former CNS California shareholders and the investors in the Private Placement owning in the aggregate 24,351,139 shares of our common stock, which represented approximately 96.2% of our issued and then 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, 868,990 shares of our common stock) immediately after completion of these transactions.

ACQUISITION OF NEURO-THERAPY CLINIC

On January 11, 2008, we acquired all of the outstanding common stock of

NTC in exchange for a non-interest bearing $300,000 note payable in equal monthly installments over 36 months. The acquisition was accounted under the purchase method of accounting, and accordingly, the purchase price was allocated

to NTC's net tangible assets based on their estimated fair values as of January 11, 2008. The excess purchase price over the value of the net tangible assets was recorded as goodwill. The purchase price and the allocation thereof are as follows:

Fair value of note payable issued	$ 265,900
Direct transaction costs	43,700
Purchase price	309,600
Allocated to net tangible liabilities, including cash of $32,100	(10,600)
Allocated to goodwill	$ 320,200

The acquisition was not material, and accordingly, no pro forma results are presented.

FINANCIAL OPERATIONS OVERVIEW

REVENUES

Our Laboratory Information Services revenues are derived from the sale of rEEG Reports to physicians. Physicians are generally billed upon delivery of a rEEG Report. The list prices of our rEEG Reports to physicians range from $200 to $800 with $400 being the most frequent charge.

Patient service revenue is generated as a result of providing services to patients on an outpatient basis. Patient service revenue is recorded at our established billing rates less contractual adjustments. Generally, collection in full is not expected on our established billing rates. Contractual adjustments are recorded to state our patient service revenue at the amount we expect to collect for the services provided based on amounts due from third-party payors at contractually determined rates.

COST OF REVENUES

Cost of revenues are for Laboratory Information Services and represent the cost of direct labor, the amortization of a 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 continually evaluate the feasibility of hiring our own personnel to perform most of the processing and analysis necessary to render an rEEG Report.

Cost of revenues for Clinical Services are not broken out separately but are included in general and administrative expenses.

RESEARCH AND DEVELOPMENT

Research and development expenses are associated with our Laboratory Information Services and primarily represent costs incurred to design and conduct clinical studies, improve rEEG processing, add data to the CNS 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

For our Laboratory Information Services, our selling and marketing expenses consist primarily of personnel costs and the costs of educating physicians, laboratory personnel and other healthcare professionals regarding our products and services.

For our Clinical Services, selling and marketing costs relate to advertising to attract patients to the clinic.

GENERAL AND ADMINISTRATIVE

Our general and administrative expenses consist primarily of personnel, occupancy, legal, accounting and other professional and administrative costs for both our Laboratory Information Services and Clinical Services businesses.

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 consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from those estimates under different assumptions or conditions.

Our significant accounting policies are described in Note 3 to our consolidated financial statements included elsewhere in this report. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements.

REVENUE RECOGNITION

We have generated limited revenues since our inception. Revenues for our Laboratory Service product are recognized when an rEEG Report is delivered to a Client-Physician. For our Clinical Services, revenues are recognized when the services are performed.

STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense, which is a non-cash charge, results from stock option grants. Compensation cost is measured at the grant date based on the calculated fair value of the award. We recognize stock-based compensation expense on a straight-line basis over the vesting period of the underlying option. The amount of stock-based compensation expense expected to be amortized in future periods may decrease if unvested options are subsequently cancelled or may increase if future option grants are made.

RESULTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

As earlier described, we operate in two business segments: Laboratory Information Services and Clinical Services. Our Laboratory Information Services business focuses on the delivery of reports ("rEEG Reports") that assist physicians with treatment strategies for patients with behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. Our Clinical Services business operated through NTC provides full service psychiatric services. For comparative purposes below, our Laboratory Information Services business represents all of the company's business in 2007 and our Clinical Services business represents the operations of Neuro-Therapy Clinic since its acquisition on January 11, 2008.

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

	YEAR ENDED SEPTEMBER 30,	
	2008	2007
Revenues	100%	100%
Cost of revenues	21	70
Gross profit	79	30
Research and development	271	605
Sales and marketing	114	52
General and administrative expenses	402	745
Operating loss	(708)	(1,372)
Other income (expense), net	13	(4)
Net income (loss)	(695)%	(1,376)%

REVENUES

YEAR ENDED SEPTEMBER 30,		PERCENT
2008	2007	CHANGE

Laboratory Service Revenues	$ 178,500	$ 238,400	(25%)
Clinical Service Revenues	595,000	--	
Total Revenues	$ 773,500	$ 238,400	224%

For Laboratory Information Services the number of rEEG Reports delivered for the period decreased from 630 in 2007 to 476 in 2008 while the price per report decreased from approximately $378 in 2007 to $375 in 2008. The reduction in revenues from the sale of our rEEG Reports is largely due to the acquisition of NTC, which was our largest customer in 2007. We hired a president in October of 2007 whose main focus is the commercialization of our products, and accordingly, we have begun to scale up our sales and marketing efforts. However, we do not expect to drive broader adoption of reports based on our rEEG technology until the completion in 2009 of our multi-site clinical study to validate the efficacy of our products. Accordingly, we anticipate that revenues will not increase materially until fiscal 2010.

Our Clinical Services revenue is as a result of patient billings for psychiatric services rendered. Currently, we do not plan to expand our Clinical Services business, and therefore we do not anticipate a significant increase in revenues generated by this business segment.

COST OF REVENUES

	YEAR ENDED SEPTEMBER 30,		
	2008	2007	PERCENT CHANGE
Cost of Laboratory Information Services revenues	$ 163,200	$ 166,200	(2%)

Cost of Laboratory Information Services revenues consists of payroll costs, consulting costs, charges relating to the amortization of the CNS Database and other miscellaneous charges. Consulting costs primarily represent external costs associated with the processing and analysis of rEEG Reports and range between $75 and $100 per rEEG Report. For the year ended September 30, 2008, cost of revenues was $163,200 consisting primarily of direct labor and benefit costs of $83,000, consulting fees of $49,000, and stock-based compensation of $16,000. For the year ended September 30, 2007, cost of revenues was $166,200 consisting primarily of direct labor and benefit costs of $67,000, consulting fees of $53,000, amortization of the purchased database of $20,000 and stock-based compensation of $20,000. We expect costs of revenues will increase as an absolute number as we deliver more rEEG Reports. However, we expect cost of revenues to decrease as a percentage of revenues as we improve our operating efficiency.

RESEARCH AND DEVELOPMENT

	YEAR ENDED SEPTEMBER 30,		
	2008	2007	PERCENT CHANGE
Laboratory Information Services research and development	$ 2,097,300	$ 1,442,600	45%

Research and development expenses consist of clinical studies, costs to identify indications of approved medications, projects for training doctors associated with our research studies, patents costs, consulting fees, payroll costs (including stock-based compensation), expenses related to database enhancements and maintenance, and other miscellaneous costs. Research and development costs increased for the year ended September 30, 2008 from the comparable period for 2007 as a result of increases in: (i) expenses relating to clinical studies, (ii) payroll and stock compensation costs, (iii) patent costs as a result of increased filings and (iv) database enhancements and maintenance costs; offset by reduced (v) consulting fees, as this expertise was brought in-house.

The increase in expenses relating to clinical studies is attributable to our completion of our first pilot study and to our expansion and acceleration of a second larger clinical study with the goal of driving market acceptance of our rEEG technology. The increase in payroll costs is attributable to the hiring of our Chief Medical Officer and increases in stock-based compensation.

In an effort to reduce our costs, we deferred projects associated with the expansion of our rEEG technology to additional medications in order to focus our efforts and funds on the clinical study and the commercialization of our product. Similarly, the cost of identifying indications of approved drugs and drug candidates decreased as we deferred these projects to concentrate our efforts in the clinical study and the commercialization of our product. We expect that research and development expenses will continue to increase as we continue to accelerate and grow our clinical study to validate the efficacy of our rEEG technology.

SALES AND MARKETING

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2008	2007	CHANGE
Sales and Marketing			
Laboratory Information Services .	$ 847,600	$ 123,600	586%
Clinical Services	33,800	--	
Total Sales and Marketing	$ 881,400	$ 123,600	613%

Sales and marketing expenses associated with our Laboratory Information Services business consist primarily of consulting fees, payroll costs, marketing costs and travel costs. Sales and marketing expenses increased in fiscal 2008 versus fiscal 2007 due to the hiring of consultants to expand our sales and marketing efforts, increases in marketing activities, such as attendance at conferences, increased travel and the hiring of (i) a Vice President for commercial operations, (ii) an additional salesperson and (iii) a marketing assistant. We expect sales and marketing costs to increase in as we continue to expand our sales and marketing efforts.

The Clinical Services sales and marketing expenses consists of advertising in various media so as to attract patients to the clinic. We currently do not plan to expand our Clinical Services business, and therefore we expect that our sales and marketing expenses associated with this business segment will not materially change.

GENERAL AND ADMINISTRATIVE

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2008	2007	CHANGE
General and administrative			
Laboratory Information Services	$ 2,349,000	$ 1,775,600	33%
Clinical Services	756,700	--	
Total General and administrative	$ 3,105,700	$ 1,775,600	75%

General and administrative expenses for our Laboratory Information Services business for the fiscal year ended September 30, 2007 primarily related to salaries (including stock-based compensation), professional and consulting services and dues. The increase in general and administrative expenses for the fiscal year ended September 30, 2008 is primarily related to increased payroll and benefits (including stock based compensation) costs. This is partly attributed to the hiring a of a new president. These personnel costs amounted to $1.4 million for the year ended September 2008, as compared to $0.7 million for the year ended September 30, 2007. Professional and consulting fees and dues increased to $470,000 for 2008 versus $213,000 for 2007. This increase was offset by a one-time $475,000 advisory fee paid to Richardson & Patel, LLP in 2007 which did not recur in 2008. This advisory fee was in connection with our merger transaction.

General and administrative expenses of $756,700 for our Clinical Services business for the year ended September 30, 2008 includes all costs associated with running NTC. This includes all payroll costs, medical supplies, occupancy costs and other general and administrative costs.

INTEREST INCOME (EXPENSE)

	YEAR ENDED SEPTEMBER 30,		PERCENT
	2008	2007	CHANGE

Laboratory Information Services (Expense), net	$ 104,600	$ (115,600)	*
Clinical Services (Expense)	(600)	--	
Total interest income (expense)	$ 104,000	$ (115,600)	*

* Not meaningful

With respect to our Laboratory Information Services business, we earned interest income of $127,000 for the fiscal year ended September 30, 2008 from interest bearing accounts. This was offset by $22,000 of interest expense on the promissory note issued in connection with our acquisition of NTC and interest expenses incurred in connection with an equipment lease. For the fiscal year 2007, net interest expense was $115,600 and consisted of $190,000 relating to interest expense from the ascribed value of a warrant issued to NuPharm Database, LLC. Additional interest expense relating to promissory notes and other interest bearing accounts amounted $17,000. These expenses were partly offset by interest income of $90,700.

With respect to our Clinical Services business, the interest expense of $600 relates to an equipment lease.

NET LOSS

	YEAR ENDED SEPTEMBER 30,		
	2008	2007	PERCENT CHANGE
Laboratory Information Services net loss	$(5,166,200)	$(3,279,100)	58%
Clinical Services net loss	(205,300)	--	*
Total Net Loss	$(5,371,500)	$(3,279,100)	64%

* Not meaningful

The increase in net loss of $2,092,400 is due primarily to increases in our research and development, sales and marketing, and general and administrative costs as described above, offset by revenue generated by our Clinical Services business. 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, increase the penetration of our products in the marketplace, and hire additional personnel.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have incurred significant losses and, as of September 30, 2008, we had an accumulated deficit of approximately $16.7 million. We have not yet achieved profitability and anticipate that we will continue to incur net losses for the foreseeable future. We expect that our research and development, selling and marketing and general and administrative expenses will continue to grow and, as a result, we will need to generate significant product revenues to achieve profitability. We may never achieve profitability.

As of September 30, 2008 we had approximately $2 million in cash and cash equivalents and a working capital balance of approximately $830,000 compared to approximately $5.8 million in cash and cash equivalents and a working capital balance of approximately $5.3 million at September 30, 2007.

SOURCES OF LIQUIDITY

Since our inception substantially all of our operations have been financed primarily from equity and debt financings. Through September 30, 2008, we had received proceeds of $8.6 million from the sale of stock, $3,116,000 from the issuance of convertible promissory notes and $220,000 for the issuance of common stock to employees in connection with expenses paid by such employees on behalf of the company.

CASH FLOWS

Net cash used in operating activities was $3.7 million for the fiscal year ended September 30, 2008 compared to $3.0 million for fiscal year ended September 30, 2007. The increase in cash used of $0.7 million was primarily attributable to an increase in research and development expenses and increases in payroll, professional and consulting fees, offset by the non-recurrence of a

payment of an advisory fee of $475,000 to Richardson & Patel, LLP which occurred in 2007.

Net cash used in investing activities was $74,600 for the fiscal year ended September 30, 2008 as compared to $7,200 for the fiscal year ended September 30, 2007. Our 2008 investing activities related to the acquisition of our Neuro-Therapy Clinic and the purchase of furniture and equipment for our headquarters and Laboratory Information Services offices. In 2007, our investing activities consisted of loans made to employees and deposits.

Net cash used by financing activities in 2008 primarily resulted from the payment of $60,600 on a promissory note issued to Daniel Hoffman in connection with our acquisition of NTC. In 2007 net cash provided by financing activities was $8.6 million from the sale of stock.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As of September 30, 2008, our major contractual obligations were the remaining balance on a promissory note of $205,300 plus interest at 8% issued in connection with our acquisition of NTC and operating leases for office space totaling $130,000. As of September 30, 2007, our only significant contractual obligation was for leased space. Please see Note 15 to our Consolidated Financial Statements included elsewhere in this report for further details.

OPERATING CAPITAL AND CAPITAL EXPENDITURE REQUIREMENTS

Our continued operating losses and limited capital raise substantial doubt about our ability to continue as a going concern. We expect to continue to incur substantial operating losses in the future and to make capital expenditures to keep pace with the expansion of our research and development programs and to scale up our commercial operations. We expect that our existing cash will be used to fund working capital and for capital expenditures and other general corporate purposes. The amount and timing of actual expenditures may vary significantly depending upon a number of factors, such as the progress of our product development, regulatory requirements, commercialization efforts and the amount of cash used by operations.

We currently anticipate that our cash and collections from sale of our services, will not be sufficient to fund our operations for at least the next 12 months. Consequently we anticipate raising additional funds in 2009.

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

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

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

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

d. the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; and

e. the effect of technological and market developments.

Until we can generate a sufficient amount of revenues to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings, borrowings or strategic collaborations. The issuance of equity securities may result in dilution to stockholders. We do not know whether additional funding will be available on acceptable terms, or at all, especially given the market conditions that currently prevail. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or selling and marketing initiatives, and implement other cost saving measures.

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, 2008, we had net operating loss carryforwards for federal income tax purposes of $12.4 million. 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.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to financial statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
CNS Response, Inc.

We have audited the accompanying consolidated balance sheets of CNS Response, Inc. and its subsidiaries (the "Company") as of September 30, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the two-year period ended September 30, 2008. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 2008 and 2007, and the results of its operations and it cash flows for each of the years in the two-year period ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated 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 and limited capital 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

<TABLE>

CNS RESPONSE, INC.

CONSOLIDATED BALANCE SHEETS

<CAPTION>

	SEPTEMBER 30, 2008	SEPTEMBER 30, 2007
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,997,000	$ 5,790,100
Accounts receivable (net of allowance for doubtful accounts of $17,200 and $17,200 in 2008 and 2007 respectively)	98,200	59,200
Prepaids and other	189,400	159,000
Total current assets	2,284,600	6,008,300
Other assets	28,700	4,100
Goodwill	320,200	--
TOTAL ASSETS	$ 2,633,500	$ 6,012,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable (including $6,800 and $5,000 to related parties in 2008 and 2007 respectively)	$ 335,700	$ 219,400
Accrued liabilities	207,500	207,500
Deferred compensation (including $107,000 and $56,700 to related parties in 2008 and 2007 respectively)	264,900	73,400
Accrued patient costs	397,500	--
Accrued consulting fees	67,600	73,200
Accrued interest	42,600	35,800
Convertible promissory note	50,000	50,000
Current portion of long-term debt	88,500	--
Total current liabilities	1,454,300	659,300
LONG-TERM LIABILITIES		
Note payable to officer	118,600	--
Capital lease	7,700	--
Total long-term liabilities	126,300	--
COMMITMENTS AND CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value; authorized 750,000,000 shares; 25,299,547 outstanding	25,300	25,300
Additional paid-in capital	17,701,300	16,630,000
Accumulated deficit	(16,673,700)	(11,302,200)
Total stockholders' equity	1,052,900	5,353,100
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,633,500	$ 6,012,400

</TABLE>

See accompanying Notes to Consolidated Financial Statements

<TABLE>

CNS RESPONSE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

<CAPTION>

YEARS ENDED SEPTEMBER 30,

	2008	2007
<S>	<C>	<C>
REVENUES		
Laboratory Information Services	$ 178,500	$ 238,400
Clinical Services	595,000	--
	773,500	238,400
OPERATING EXPENSES:		
Cost of Laboratory Service revenues (including amortization expense of $0 and $19,900 for the years ended September 30, 2008 and 2007 respectively)	163,200	166,200
Research and development	2,097,300	1,442,600
Sales and marketing	881,400	123,600
General and administrative	3,105,700	1,775,600
Total operating expenses	6,247,600	3,508,000
OPERATING LOSS	(5,474,100)	(3,269,600)
OTHER INCOME (EXPENSE):		
Interest Income, net	104,000	(115,600)
Other	--	106,900
Total other income (expense)	104,000	(8,700)
LOSS BEFORE PROVISION FOR INCOME TAXES	(5,370,100)	(3,278,300)
PROVISION FOR INCOME TAXES	1,400	800
NET LOSS	$ (5,371,500)	$ (3,279,100)
BASIC NET LOSS PER SHARE	$ (0.21)	$ (0.17)
DILUTED NET LOSS PER SHARE	$ (0.21)	$ (0.17)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	25,299,547	18,778,077
Diluted	25,299,547	18,778,077

</TABLE>

See accompanying Notes to Consolidated Financial Statements

<TABLE>

CNS RESPONSE, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at October 1, 2006	7,903,107	$ 7,900	$ 2,822,100	$ (8,023,100)	$ (5,193,100)
Forgiveness of accrued interest from NuPharm and issuance and exercise of warrants by NuPharm	2,800,000	2,800	334,800	--	337,600
Conversion of convertible promissory notes and accrued interest	5,993,515	6,000	4,061,100	--	4,067,100
Issuance of stock in connection with mezzanine financing, net of offering costs of $47,600	1,905,978	1,900	1,875,500	--	

1,877,400					
Issuance of stock for settlement of debt	11,015	--	1,300	--	
1,300					
Issuance of options in settlement of accrued consulting fees	--	--	27,000	--	
27,000					
Issuance of stock in connection with private placement, net of offering costs of $1,057,300	6,504,758	6,500	6,741,900	--	
6,748,400					
Issuance of stock as payment of placement agent fee	83,333	100	(100)	--	
--					
Issuance of stock to repay note to NuPharm and related accrued interest	244,509	200	293,200	--	
293,400					
Collection of loans receivable through the receipt of stock	(146,668)	(100)	(175,900)	--	
(176,000)					
Stock-based compensation	--	--	649,100	--	
649,100					
Derivative instrument liability	--	--	(2,273,700)	--	
(2,273,700)					
Reclassify fair value of derivative instrument liability	--	--	2,273,700	--	
2,273,700					
Net loss for the year ended September 30, 2007	--	--	--	(3,279,100)	
(3,279,100)					
Balance at September 30, 2007	25,299,547	$ 25,300	$ 16,630,000	$(11,302,200)	
$ 5,353,100					
Stock- based compensation	--	--	1,071,300	--	
1,071,300					
Net loss for the year ended September 30, 2008	--	--	--	(5,371,500)	
(5,371,500)					
Balance at September 30, 2008	25,299,547	$ 25,300	$ 17,701,300	$(16,673,700)	
$ 1,052,900					

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(5,371,500)	$(3,279,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,300	19,900
Other	--	(106,900)
Stock based compensation	1,071,300	649,100
Non-cash interest expense	--	189,800
Changes in operating assets and liabilities:		
Accounts receivable	(39,000)	(32,900)
Prepaids and other	(30,400)	(87,900)
Accounts payable	116,300	(271,200)
Deferred compensation and others	192,600	(39,700)
Accrued patient costs	397,500	--
Net cash used in operating activities	(3,656,900)	(2,958,900)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deferred offering relating to acquisition	(43,700)	--
Furniture and fixtures	(30,900)	--
Increase in deposits	--	(3,000)
Loans to employees	--	(4,200)

Net cash used in investing activities	(74,600)	(7,200)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note	(60,600)	--
Repayment of lease payable	(1,000)	--
Repayment of debt	--	(5,000)
Proceeds from the sale of preferred stock, net of offering costs	--	1,779,900
Proceeds from the sale of common stock, net of offering costs	--	6,748,400
Proceeds from exercise of warrants	--	28,000
Net cash provided (used) by financing activities	(61,600)	8,551,300
NET INCREASE (DECREASE) IN CASH	(3,793,100)	5,585,200
CASH- BEGINNING OF YEAR	5,790,100	204,900
CASH- END OF YEAR	$ 1,997,000	$ 5,790,100

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 22,440	$ 2,300
Income taxes	$ 5,972	$ 800
Fair value of note payable to officer issued for acquisition	$ 265,900	--
Fair value of equipment acquired through lease	$ 10,500	--
Conversion of preferred stock into common stock	--	5,958,200
Conversion of promissory notes and related accrued interest into preferred stock	--	4,067,100
Common stock received as collection of loans receivable	--	176,000
Derivative instrument liability	--	2,273,700

See accompanying Notes to Consolidated Financial Statements

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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.

In addition, as a result of its acquisition of Neuro-Therapy Clinic, P.C. ("NTC") on January 11, 2008, the Company provides behavioral health care services. NTC is a center for highly-advanced testing and treatment of neuropsychiatric problems, including learning, attentional and behavioral challenges, mild head injuries, as well as depression, anxiety, bipolar and all other common psychiatric disorders. Through this acquisition, the Company expects to advance neurophysiology data collection, beta-test planned technological advances in rEEG, advance physician training in rEEG and investigate practice development strategies associated with rEEG.

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 and equity financings. It will be necessary for the Company to raise additional funds. The Company's liquidity and capital requirements depend on several factors, including the rate of market acceptance of its services, the ability to expand and retain its customer base, its ability to execute its current business plan and other factors. The Company is currently exploring additional sources of capital but there can be no assurances that any financing arrangement will be available in amounts and terms acceptable to the Company.

2. REVERSE MERGER AND FINANCING

COMPLETION OF MERGER

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 ("CNS California"), pursuant to which CNS California would be acquired by the Company in a merger transaction wherein Merger Sub would merge with and into CNS California, with CNS California being the surviving corporation (the "Merger"). On March 7, 2007, the Merger closed and CNS California became a wholly-owned subsidiary of the Company. At the closing, the Company changed its name to CNS Response, Inc.

From a historical perspective, CNS California was deemed to have been the acquirer in the reverse merger and CNS California is deemed the survivor of the reorganization. As a result, the consolidated financial statements of the Company presented reflect the historical results of CNS 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 CNS 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

On March 7, 2007, Merger Sub was merged with and into CNS California, the separate existence of Merger Sub ceased, and CNS California continued as the surviving corporation at the subsidiary level. Pursuant to the Merger, the issued and outstanding shares of common stock of CNS California were converted into an aggregate of 9,845,132 shares of Company Common Stock, and the issued and outstanding shares of Series A and B preferred stock of CNS California were converted into 5,993,515 and 1,905,978 shares of Company Common Stock, respectively. In addition warrants and options to purchase shares of common stock of CNS California were converted into warrants and options to purchase 4,271,414 and 4,136,103 shares of Company Common Stock, respectively. Following the Merger, the business conducted by the Company is the business conducted by CNS California.

Pursuant to the terms of the Merger Agreement, CNS Response, Inc. (formerly Strativation, Inc.) paid an advisory fee of $475,000 to Richardson & Patel, 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 CNS California described below, the Company had outstanding 18,696,948 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.

ACCOUNTING TREATMENT OF THE MERGER AND FINANCIAL STATEMENT PRESENTATION

The Company accounted for the Merger as a reverse merger under

generally accepted accounting principles, and accordingly, the consolidated financial statements of the Company for the periods before March 7, 2007, reflect only the operations of CNS California. No goodwill or other intangible asset was recorded as a result of the Merger. Immediately prior to the reverse merger on March 7, 2007, the Company had no material operations, assets, or liabilities. Therefore, pro forma financial statements are not presented.

THE PRIVATE PLACEMENT

Immediately following the closing of the Merger, the Company 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"). On May 15, 2007, the Company received additional gross proceeds of $797,300 from the second closing of the Private Placement. Pursuant to Subscription Agreements entered into with these Investors, the Company sold 6,504,758 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 $1,674,600 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 was recorded as a liability in accordance with SFAS No. 133 and EITF 00-19. As of June 22, 2007, the common shares underlying the warrants were registered satisfying the warrant liability. As of such date, the value of the warrants had not changed and thus the recorded amount was reclassified to Stockholders' Equity.

As partial 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 520,380 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 $599,100 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 was recorded as a liability in accordance with SFAS No. 133 and EITF 00-19. As of June 22, 2007, the common shares underlying the warrants were registered satisfying the warrant liability. As of such date, the value of the warrants had not changed and thus the recorded amount was reclassified to Stockholders' Equity.

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 subsidiaries CNS California and NTC. 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.

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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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 collectability of customer receivables on an ongoing basis by reviewing past-due invoices and assessing the current creditworthiness of each customer. Allowances are provided for specific receivables deemed to be at risk for collection.

FIXED ASSETS

Fixed assets which are recorded at cost consist of office furniture and equipment and are depreciated over their estimated useful life on a straight-line basis. The useful life of these assets is estimated to be from 3 to 5 years. Depreciation and accumulated depreciation for the year ended September 30, 2008 is $6,300.

GOODWILL

In accordance with SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, goodwill will not be amortized but instead will be tested for impairment at least annually, or more frequently if certain indicators are present.

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, 2008 and 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.

CNS RESPONSE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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, 2008 and 2007.

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 two measurements of profitability and does disaggregate its business for internal reporting and therefore operates two business segments which are comprised of a reference laboratory and a clinic. The Reference Laboratory provides reports ("rEEG Reports") that assist physicians with treatment strategies for patients with behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. The Clinic operates NTC, a full service psychiatric practice.

RECLASSIFICATIONS

Certain amounts in prior years have been reclassified to conform to current year presentation. These reclassifications had no effect on previously reported operating loss or net income.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, FAIR VALUE MEASUREMENTS ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated operating results and financial condition.

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.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," or SFAS No. 141R. SFAS No. 141R replaces SFAS No. 141, "Business Combinations." SFAS No. 141R establishes principles and requirements for how an acquiror recognizes and measures in its financial statements the

identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired or a gain from a bargain purchase. SFAS No. 141R also determines disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of a fiscal year that begins on or after December 15, 2008 and has implications for acquisitions that occur prior to this date. The Company does not expect the adoption of SFAS No. 141R will have a material impact on its current financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," or SFAS No. 160. SFAS No. 160 amends Accounting Research Bulletin 51, "Consolidated Financial Statements," or ARB 51, and requires all entities to report noncontrolling (minority) interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders' equity. SFAS No. 160 also requires any acquisitions or dispositions of noncontrolling interests that do not result in a change of control to be accounted for as equity transactions. Further, SFAS No. 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS No. 160 will have a material, if any, impact on its financial position, results of operations and cash flows.

In May 2008, the FASB issued the final version of Staff Position No. APB 14-1, ACCOUNTING FOR CONVERTIBLE DEBT INSTRUMENTS THAT MAY BE SETTLED IN CASH UPON CONVERSION (INCLUDING PARTIAL CASH SETTLEMENT ("APB 14-1") that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. APB 14-1 is effective for fiscal years beginning after December 15, 2008, which for the Company will be fiscal 2010, and interim periods within those fiscal years and must be applied retrospectively to all periods presented, which for the Company would include the comparative quarterly presentations for fiscal 2009. Accordingly, commencing in fiscal 2010, the Company will present prior period comparative results reflecting the impact of APB 14-1 if determined to apply to the Company at that time. The Company is currently evaluating the impact APB 14-1 will have on its consolidated financial statements, if any.

In March 2008, the FASB issued SFAS No. 161, DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES -- AN AMENDMENT OF FASB STATEMENT 133 ("SFAS No. 161"). SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements, if any.

In April 2008, the FASB issued Staff Position No. FAS 142-3, DETERMINATION OF THE USEFUL LIFE OF INTANGIBLE ASSETS ("FAS 142-3") that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 and other U.S. generally accepted accounting principles. FAS 142-3 is effective for fiscal years and interim periods beginning after December 15, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements, if any.

4. LOANS TO RELATED PARTIES

From September 2006 through February 2007, CNS California loaned certain officer, employees and a consultant $171,800 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 CNS California following the date on which CNS

California 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 notes provided that repayment of the notes could be made in one of the following ways, or in combination of both:

(a) in cash, or

(b) by tendering Common Stock of CNS California 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 and the terms of the merger described in Note 2 above, the Company demanded payment of all such notes upon the completion of the merger and private placement in which the Company raised approximately $7,805,000. The officer who owed the Company $93,900, including interest, repaid the loan by tendering 78,219 shares of the Company's Common Stock to the Company. Certain other employees and consultants repaid their loans by tendering an aggregate of 68,449 shares of the Company's common stock to the Company. None of the aforementioned notes remained outstanding as of September 30, 2008.

5. CONVERTIBLE PROMISSORY NOTES

Prior to September 30, 2006, CNS California 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 CNS California 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).

In October 2006, CNS California and the note holders of certain convertible promissory notes converted notes with an aggregate outstanding balance of $3,061,700 and related accrued and unpaid interest of $1,005,300 at September 30, 2006 into 5,993,515 shares of CNS California Series A Preferred Stock. In addition, the exercise price of warrants to purchase 1,062,116 shares of the CNS California common stock issued to such note holders was changed to $0.59 per share. As described in Note 2, upon the merger with Strativation, the preferred shares were converted into 5,993,515 shares of the Company's common stock and the warrants were converted into warrants to purchase 1,062,116 shares of the Company's common stock at $0.59 per share. The consolidated financial statements of the Company presented reflect the issuance of these shares as common stock.

As of September 30, 2008 and 2007, one note with a principal balance of $50,000 was outstanding.

6. NOTE PAYABLE TO NUPHARM DATABASE, LLC

In connection with the January 2000 Asset Purchase Agreement between CNS California and NuPharm Database, LLC (NuPharm) providing for the purchase of a database and the assumption of certain NuPharm liabilities, CNS California 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 CNS California's common stock at $0.01 per share. The warrant was not exercised before expiring in 2005.

In October 2006, CNS California and 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 CNS California's common stock at $0.01 per share. The note was due and payable on demand five years from the date of issuance, could be prepaid by the Company at any time without penalties and was convertible into shares of common stock of CNS California upon the completion of a financing (as defined) at a price per share of the common stock issued in such financing. The warrant was exercised in October 2006. CNS California valued the warrant at $309,500 using the Black-Scholes model and recorded the excess of the value of the warrant over the forgiven accrued interest of $119,800 as a prepaid asset. The excess was being amortized as interest expense over a period of one year, the expected term of the note when

it was issued.

Pursuant to the abovementioned terms, the note payable to NuPharm and accrued interest thereon were converted into 244,509 shares of the Company's Common Stock upon the completion of the merger and private placement described in Note 2 above. Upon conversion, the entire balance of the unamortized prepaid interest was charged to interest expense.

7. STOCKHOLDERS' EQUITY

COMMON AND PREFERRED STOCK

As of September 30, 2008 the Company is authorized to issue 750,000,000 shares of common stock.

As of September 30, 2008, CNS California is 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.

As of September 30, 2008, Colorado CNS Response, Inc. is authorized to issue 1,000,000 shares of common stock.

As of September 30, 2008, Neuro-Therapy Clinic, P.C., a wholly-owned subsidiary of Colorado CNS Response, Inc., is authorized to issue ten thousand shares of common stock, no par value per share.

As described in Note 6 above, in October 2006, NuPharm exercised the warrant to purchase 2,800,000 shares of CNS California's common stock at a price of $0.01 per share. These common shares were converted into 2,800,000 shares of the Company's common stock upon the completion of the merger described in Note 2 above.

As described in Note 5 above, in October 2006, CNS California and the note holders of certain of the convertible promissory notes converted promissory notes with an aggregate outstanding balance of $3,061,700 and related accrued and unpaid interest of $1,005,400 at September 30, 2006 into 5,993,515 shares of the CNS California's Series A Preferred Stock. These 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 above.

In October, 2006, CNS California sold 1,905,978 Units in a private financing resulting in net proceeds of $1,877,400. Each Unit consists of one share of Series B Preferred Stock and 5-year warrants to purchase 0.6 shares of the CNS California's common stock at $1.51 per share. Holders of the Series B Preferred Stock were 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 CNS California 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 Note 6) 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. All shares of preferred stock were converted into 1,905,978 shares of common stock concurrently with the completion of the Merger as described in Note 2 above.

As described in Note 2 above, in March and May 2007, the Company sold 6,504,758 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.

As described in Note 2 above, as partial consideration for services rendered further to the private placement, the Company's placement agent was issued 83,333 shares of the Company's common stock.

As described in Note 6 above, the note payable to NuPharm and accrued interest thereon were converted into 244,509 shares of the Company's Common Stock upon the completion of the merger and private placement described in Note 2 above.

As described in Note 4 above, an officer and certain employees and consultants repaid their loans to the Company by tendering 146,668 shares of the Company's common stock.

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 September 30, 2008, there were no options outstanding under this plan and the Company intends to terminate this plan.

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

On August 3, 2006, CNS California adopted the CNS California 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan provides for the issuance of awards in the form of restricted shares, stock options (which may constitute incentive stock options(ISO) or non-statutory stock options (NSO)), stock appreciation rights and stock unit grants to eligible employees, directors and consultants and is administered by the board of directors. A total of 10 million shares of stock are reserved for issuance under the 2006 Plan. As of September 30, 2008, there were 8,964,567 options and 183,937 restricted shares outstanding under the 2006 Plan and 498,739 shares available for issuance of awards.

The 2006 Plan provides that in any calendar year, no eligible employee or director shall be granted an award to purchase more than 3 million shares of stock. The option price for each share of stock subject to an option shall be (i) no less than the fair market value of a share of stock on the date the option is granted, if the option is an ISO, or (ii) no less than 85% of the fair market value of the stock on the date the option is granted, if the option is a NSO ; provided, however, if the option is an ISO granted to an eligible employee who is a 10% shareholder, the option price for each share of stock subject to such ISO shall be no less than 110% of the fair market value of a share of stock on the date such ISO is granted. Stock options have a maximum term of ten years from the date of grant, except for ISOs granted to an eligible employee who is a

10% shareholder, in which case the maximum term is five years from the date of grant. ISOs may be granted only to eligible employees. The Company has adopted SFAS No. 123R (revised 2004), "Share-Based Payment", and related interpretations. Under SFAS No. 123R, share-based compensation cost is measured at the grant date based on the calculated fair value of the award. The Company estimates the fair value of each option on the grant date using the Black-Scholes model. The following assumptions were made in estimating the fair value:

OPTIONS GRANTED IN:	DIVIDEND YIELD	RISK-FREE INTEREST RATE	EXPECTED VOLATILITY	EXPECTED LIFE
Fiscal 2006	0%	5.46%	100%	5 years
November 2006	0%	5.00%	100%	10 years

August 2007	0%	4.72%	91%	5 years
October 2007	0%	4.60%	105%	5 years
December 2007	0%	4.00%	113%	5 years
April 2008	0%	3.78%	172%	5 years
September 2008	0%	3.41%	211%	5 years

The expense is recognized over the employees' requisite service period, generally the vesting period of the award. Stock-based compensation expense included in the accompanying statements of operations for the years ended September 30, 2008 and 2007 is as follows:

	For the fiscal year ended September 30,	
	2008	2007
Operations	$ 16,100	$ 20,100
Research and development	321,200	212,000
Sales and marketing	83,100	--
General and administrative	651,000	417,000
Total	$1,071,400	$ 649,100

Total unrecognized compensation as of September 30, 2008 amounted to $2,004,500.

A summary of stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at September 30, 2006	4,000,403	$ 0.13
Granted	3,436,300	$ 1.07
Exercised	--	--
Forfeited	--	--
Outstanding at September 30, 2007	7,436,703	$ 0.57
Granted	1,880,621	$ 0.85
Exercised	--	--
Forfeited	(352,757)	$ 1.09
Outstanding at September 30, 2008	8,964,567	$ 0.60
Weighted average fair value of options granted during:		
Year ended September 30, 2006	--	$ 0.09
Year ended September 30, 2007	--	$ 0.77
Year ended September 30, 2008	--	$ 0.73

Following is a summary of the status of options outstanding at September 30, 2008:

<TABLE>
<CAPTION>

Exercise Price	Number of Shares	Weighted Average Contractual Life	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
$0.12	859,270	10 years	$0.12
$0.132	3,112,545	7 years	$0.132
$0.30	135,700	10 years	$0.30
$0.59	28,588	10 years	$0.59
$0.80	140,000	10 years	$0.80
$0.89	968,875	10 years	$0.89
$0.96	496,746	10 years	$0.96
$1.09	2,614,232	10 years	$1.09
$1.20	333,611	5 years	$1.20
$0.51	275,000	10 Years	$0.51
Total	8,964,567		$0.60

</TABLE>

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.

During the year ended September 30, 2007, the following additional 3,784,199 warrants were granted and are outstanding as of such date:

Warrants to Purchase	Exercise Price	Issued in Connection With:
1,143,587 shares	$1.51	Private placement described in Note 2
7,921 shares	$1.01	To placement agent for private placement described in Note 2
4,752 shares	$1.812	To placement agent for private placement described in Note 2
1,951,445 shares	$1.80	Private placement completed immediately after the merger and described in Note 2
520,380 shares	$1.44	To placement agent for private placement completed immediately after the merger and described in Note 2
156,114 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 2,107,559 shares of common stock at $1.80 per share and the warrants to purchase 520,380 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. As of June 22, 2007, the common shares underlying the warrants were registered satisfying the warrant liability. As of such date, the value of the warrants had not changed and thus the recorded amount was reclassified to Stockholders' Equity.

At September 30, 2007, there were warrants outstanding to purchase 6,899,353 shares of the Company's common stock at exercise prices ranging from $0.01 to $1.812 with a weighted average exercise price of $1.04. The warrants expire at various times through 2017. No warrants were issued or exercised during the 12 months ended September 30, 2008. Accordingly, all warrants are outstanding at September 30, 2008.

8. INCOME TAXES

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We provide a valuation allowance to reduce our deferred tax assets to their estimated realizable value.

Reconciliations of the provision (benefit) for income taxes to the amount compiled by applying the statutory federal income tax rate to profit (loss) before income taxes is as follows for each of the years ended September 30:

	2008	2007
Federal income tax (benefit) at statutory rates	(34)%	(34)%
Gain from troubled debt restructured with related parties	0%	0%
Stock-based compensation	20%	17%
Non deductible interest expense	0%	6%
Change in valuation allowance	14%	11%

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, 2008 and 2007:

<TABLE>
<CAPTION>

	2008	2007
<S>	<C>	<C>
Deferred income tax assets:		
Net operating loss carryforward	$ 4,953,000	$ 3,257,800
Deferred interest, consulting and compensation liabilities	17,000	14,300
Amortization	223,300	223,300
	5,193,300	3,495,400
Deferred income tax liabilities--other	(12,300)	(12,100)
Deferred income tax asset--net before valuation allowance	5,181,000	3,483,300
Valuation allowance	(5,181,000)	(3,483,300)
Deferred income tax asset--net	$ --	$ --

</TABLE>

Current and non-current deferred taxes have been recorded on a net basis in the accompanying balance sheet. As of September 30, 2008 we have net operating loss carryforwards of approximately $12.4 million. The net operating loss carryforwards expire by 2027. Utilization of net operating losses and capital loss carryforwards may be subject to the limitations imposed by Section 382 of the Internal Revenue Code. The Company has placed a valuation allowance against the deferred tax assets in excess of deferred tax liabilities due to the uncertainty surrounding the realization of such excess tax assets. Management periodically evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced accordingly.

9. ACQUISITION OF NEURO THERAPY CLINIC, PC

On January 11, 2008, the Company, through its wholly owned subsidiary, Colorado CNS Response, Inc., acquired all of the outstanding common stock of Neuro-Therapy Clinic, PC ("NTC") in exchange for a non-interest bearing note payable of $300,000 payable in equal monthly installments over 36 months. Upon the completion of the acquisition, the sole shareholder of NTC was appointed Chief Medical Officer of the Company. Prior to the acquisition, NTC was the Company's largest customer.

The acquisition was accounted under the purchase method of accounting, and accordingly, the purchase price was allocated to NTC's net tangible assets based on their estimated fair values as of January 11, 2008. The excess purchase price over the value of the net tangible assets was recorded as goodwill. The purchase price and the allocation thereof are as follows:

Fair value of note payable issued	$ 265,900
Direct transaction costs	43,700
Purchase price	309,600
Allocated to net tangible liabilities, including cash of $32,100	(10,600)
Allocated to goodwill	$ 320,200

Upon the occurrence of certain events, as defined in the purchase agreement, the prior sole Shareholder of NTC has a repurchase option for a period of three years subsequent to the closing, as well as certain rights of first refusal, in relation to the assets and liabilities acquired by the Company.

The acquisition was not material, and accordingly, no pro forma results are presented.

10. LONG-TERM DEBT

As described in Note 9 above, during the year ended September 30, 2008 the Company issued a note payable to an officer in connection with the acquisition of NTC. The note is non-interest bearing and the Company determined its fair value by imputing interest at an annual rate of 8%. As of September 30, 2008 the note has an outstanding principal balance in the amount of $205,300.

11. REPORTABLE SEGMENTS

The Company operates in two business segments: reference laboratory and clinic. Reference laboratory provide reports ("rEEG Reports") that assist physicians with treatment strategies for patients with behavioral (psychiatric and/or addictive) disorders based on the patient's own physiology. Clinic operates NTC, a full service psychiatric practice.

The following tables show operating results for our reportable segments, along with reconciliation from segment gross profit to (loss) from operations, the most directly comparable measure in accordance with generally accepted accounting principles in the United States, or GAAP:

<TABLE>
<CAPTION>

	Year ended September 30, 2008			
	Reference Laboratory	Clinic	Eliminations	Total
<S>	<C>	<C>	<C>	<C>
Revenues	197,400	595,000	(18,900)	773,500
Operating expenses:				
Cost of revenues	163,200	9,200	(9,200)	163,200
Research and development .	2,097,300	--	--	2,097,300
Sales and marketing	847,600	33,800	--	881,400
General and administrative	2,358,700	756,700	(9,700)	3,105,700
Total operating expenses .	5,466,800	799,700	(18,900)	6,247,600
Loss from operations	$ (5,269,400)	$ (204,700)	$ 0	$ (5,474,100)

</TABLE>

The following table includes selected segment financial information as of September 30, 2008, related to goodwill and total assets:

	Reference Laboratory	Clinic	Total
Goodwill	$ 320,200	$ --	$ 320,200
Total assets	$2,550,200	$ 83,300	$2,633,500

12. 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. For the years ended September 30, 2008 and 2007, 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, 2008 and 2007 is as follows:

	2008	2007
Net loss for computation of basic net income (loss) per share	$ (5,371,500)	$ (3,279,100)
Net income (loss) for computation of dilutive net income (loss) per share	$ (5,371,500)	$ (3,279,100)
Basic net income (loss) per share	$ (0.21)	$ (0.17)
Diluted net income (loss) per share	$ (0.21)	$ (0.17)
Basic weighted average shares outstanding	25,299,547	18,778,077
Dilutive common equivalent shares	--	--
Diluted weighted average common shares	25,299,547	18,778,077
Anti-dilutive common equivalent shares not included in the computation of dilutive net loss per share:		
Convertible debt	4,995,000	6,283,989
Warrants	6,899,353	5,372,566
Options	8,767,212	4,598,260
Preferred Stock	--	767,324

15. COMMITMENTS AND CONTINGENT LIABILITIES

LITIGATION

From time to time 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.

LEASE COMMITMENTS

The Company leases its headquarters and Laboratory Information Services space under an operating lease. In November 2008, the Company entered into a new six-month lease for its headquarters at the same location expiring in May 2009 and requiring monthly rentals of $3,610.

The Company leases space for its Clinical Services operations under an operating lease. The base rental as of September 2008 is $5,726 per month. This increases to $6,021 per month in March 2009 through to the termination of the lease on February 28, 2010.

The Company also sub-leases space for its Clinical Services operations on a month-to-month basis for $1,075 per month.

The Company leases a copier for $216 per month which it accounts for as a capital lease with an interest rate of 9% per year. The lease terminates in February 2013 at which time the copier can be purchased at fair value.

FUTURE MINIMUM LEASE PAYMENT AND DEBT MATURITIES

At September 30, 2008, the estimated future minimum lease payment under non-cancelable operating and capital leases and debt maturities were as follows:

<TABLE>
<CAPTION>

YEAR ENDING SEPTEMBER 30,	OPERATING LEASES	CAPITAL LEASE	DEBT MATURITIES	TOTAL

<S>	<C>	<C>	<C>	<C>
2009	$ 99,700	$ 2,600	$ 100,000	$ 202,200
2010	30,100	2,600	100,000	132,600
2011	--	2,600	25,000	27,500
2012	--	2,600	--	2,500
2013	--	1,100	--	1,500
Total	$ 129,800	$ 11,500	$ 225,000	$ 366,300
Less interest	(6,700)	(2,000)	(19,700)	(28,400)
Net present value	123,100	9,500	205,300	337,900
Less current portion	(95,800)	(1,800)	(86,700)	(184,300)
Long-term debt and lease obligation	$ 27,300	$ 7,700	$ 118,600	153,600

</TABLE>

16. SIGNIFICANT CUSTOMERS

For the year ended September 30, 2008, two customers accounted for 29% of Laboratory Information Services revenue and 24% of accounts receivable at September 30, 2008.

For the year ended September 30, 2007, four customers accounted for 58% of the Laboratory Information Services revenue and 48% of accounts receivable at September 30, 2007.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

CONTROLS AND PROCEDURES

Our management, including our principal executive officer (PEO) and principal financial officer (PFO), conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15, as of September 30, 2008, the end of the period covered by this report. Based on this evaluation, our PEO and PFO concluded that our disclosure controls and procedures were not effective as of September 30, 2008 for the reasons described below.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of, our PEO and PFO and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer (who is our Principal Executive Officer and Principal Financial Officer), do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls

can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Also, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

ASSESSMENT OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Under the supervision and with the participation of our management, including Leonard Brandt our PEO and PFO, we evaluated the effectiveness of our internal control over financial reporting as of September 30, 2008, based on the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and we concluded that our internal controls over financial reporting were not effective.

In reaching our conclusion, we considered the findings of an external finance and accounting advisory firm with relevant SEC compliance experience, who informed management of "material weaknesses" and several "significant deficiencies" that collectively constituted a "material weakness" in our internal control over financial reporting.

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

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

The following material weaknesses were identified:

- We do not have proper segregation of duties within the accounting and finance function.
- We do not have proper oversight and review by upper management of the accounting and finance function.

The following significant deficiencies were identified, which in combination with other deficiencies may constitute a material weakness:

- We do not have a comprehensive and formalized accounting and procedures manual.
- We do not always retain proper documentation for audit support.

To the knowledge of our management, including our PEO and PFO, none of the aforementioned material weaknesses or significant deficiencies led to a misstatement of our results of operations for the year ended September 30, 2008, or statement of financial position as of September 30, 2008.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarterly period ending September 30, 2008, there were no changes in our internal controls over financial reporting that have materially

affected, or are reasonably likely to materially affect, our internal control over financial reporting. Since our year ended September 30, 2008, due to the departure of our VP Finance and Controller which occurred on December 19, 2008, we do not have personnel with sufficient financial expertise. For this reason, we have retained the services of outside consultants to perform various accounting and finance functions for us.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information regarding directors and executive officers will appear in the definitive proxy statement for the 2009 annual meeting of CNS Response shareholders, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation will appear in the definitive proxy statement for the 2009 annual meeting of CNS Response stockholders, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and related stockholder matters will appear in the definitive proxy statement for the 2009 annual meeting of CNS Response shareholders, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions will appear in the definitive proxy statement for the 2009 annual meeting of CNS Response shareholders, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services will appear in the definitive proxy statement for the 2009 annual meeting of CNS Response shareholders, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The information required by this item is included in Item 8 of Part II of this annual report.

2. The information required by this item is included in Item 8 of Part II of this annual report.

3. Exhibits: See Index to Exhibits, which is incorporated by reference in this Item. The Exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this annual report.

(b) Exhibits. See Index to Exhibits, which is incorporated by reference in this Item. The Exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this annual report.

(c) Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNS RESPONSE, INC.

By: /S/ LEONARD BRANDT

Leonard J. Brandt
Chief Executive Officer

Date: January 13, 2009

POWER OF ATTORNEY

The undersigned directors and officers of CNS Response, Inc. do hereby constitute and appoint Leonard J. Brandt with full power of substitution and resubstitution, as their true and lawful attorney and agent, to do any and all acts and things in their name and behalf in their capacities as directors and officers and to execute any and all instruments for them and in their names in the capacities indicated below, which said attorney and agent, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for them or any of them in their names in the capacities indicated below, any and all amendments hereto, and they do hereby ratify and confirm all that said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/ LEONARD BRANDT - ---------- Leonard J. Brandt	Chief Executive Officer, Director (Principal Executive, Financial and Accounting Officer)	January 13, 2009
/S/ DAVID B. JONES - ---------- David B. Jones	Director	January 13, 2009
- ---------- Jerome Vaccaro, M.D.	Director	
/S/ HENRY HARBIN - ---------- Henry T. Harbin, M. D.	Director	January 13, 2009

INDEX TO EXHIBITS

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 Amendment of Certificate of Incorporation, dated September 7, 2005. Incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (File No. 333-150398) filed with the Commission on April 23, 2008.

3.1.5	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.
10.1	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.
10.2	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.
10.3	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.
10.4	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.

EXHIBIT NUMBER	EXHIBIT TITLE
10.5	Form of Registration Rights Agreement by and among the Registrant and certain Investors signatory thereto dated March 7, 2007. Incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on March 13, 2007.
10.6	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.
10.7	Employment Agreement by and between the Registrant and George Carpenter dated October 1, 2007. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on October 3, 2007.*
10.8	Employment Agreement by and between the Registrant and Daniel Hoffman dated January 11, 2008. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 000-26285) filed with the Commission on January 17, 2008.*
10.9	Stock Purchase Agreement by and among Colorado CNS Response, Inc., Neuro-Therapy, P.C. and Daniel A. Hoffman, M.D. dated January 11, 2008.
14.1	Code of Ethics. Incorporated by reference to Exhibit 14.1 to the Registrant's Annual Report on Form 10-KSB/A (File No. 000-26285) filed with the Commission on January 24, 2008.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.

24.1	Power of Attorney (included as part of the Signature Page).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification by Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer (Principal Accounting and Financial Officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Figures 1-6.

- ----------

* Management contract or compensatory plan or arrangement.

EXHIBIT 10.9

- ---

STOCK PURCHASE AGREEMENT

by and among

COLORADO CNS RESPONSE, INC.,

NEURO-THERAPY CLINIC, P.C.,

AND

DANIEL A. HOFFMAN, M.D.

dated January 11, 2008

- ---

TABLE OF CONTENTS

SCHEDULES AND EXHIBITS

SCHEDULES

Schedule 2.2 - Allocation of Purchase Price
Schedule 2.3(a) - Excluded Assets
Schedule 2.3(c) - Assumed Assets
Schedule 8.2(d) - Arbitration Procedure
Company Disclosure Schedule

EXHIBITS

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement ("Agreement") is entered into as of January 11, 2008 by and among Colorado CNS Response, Inc., a Colorado corporation and wholly-owned subsidiary of CNS Response, Inc. ("CNSR"), Neuro-Therapy Clinic, P.C., a Colorado professional medical corporation (the "Company"), and Daniel A. Hoffman, M.D., an individual ("Dr. Hoffman") (each a "Party" and collectively, the "Parties").

RECITALS

WHEREAS, Dr. Hoffman owns all of the issued and outstanding capital stock of the Company, consisting of Ten Thousand (10,000) shares of common stock, no par value per share (the "Company Stock"); and

WHEREAS, Dr. Hoffman desire to sell the Company Stock to CNSR, and CNSR desires to purchase the Company Stock from Dr. Hoffman, on the terms and conditions and for the consideration set forth herein.

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

ARTICLE I
DEFINITIONS

1.1 DEFINED TERMS. As used in this Agreement, the following defined terms have the meanings indicated below:

"ACTIONS OR PROCEEDINGS" means any action, suit, proceeding, arbitration, Order (as defined below), inquiry, hearing, assessment with respect to fines or penalties or litigation (whether civil, criminal, administrative, investigative or informal) commenced, brought, conducted or heard by or before, or otherwise involving, any Governmental or Regulatory Authority (as defined below).

"ACCOUNTING PRINCIPLES" means generally accepted accounting principles of the Company, applied in a manner consistent with the past practices of the Company.

"AFFILIATE" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such Person.

"AGREED AMOUNT" has the meaning set forth in SECTION 7.2(D).

"ASSETS AND PROPERTIES" and "ASSETS OR PROPERTIES" of any Person each means all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including, without limitation, cash, cash equivalents, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and Intellectual Property.

"ASSUMED ASSETS" has the meaning set forth in SECTION 2.3(C).

"ASSUMED LIABILITIES" has the meaning set forth in SECTION 2.3(C).

"BENEFIT PLAN" means any Plan established, arranged or maintained by the Company or any corporate group of which the Company, is or was a member, existing at the Closing Date or prior thereto, to which the Company contributes or has contributed, or under which any employee, officer, director or former employee, officer or director of the Company or any beneficiary thereof is covered, is eligible for coverage or has benefit rights.

"BOOKS AND RECORDS" of any Person means all files, documents, instruments, papers, books, computer files (including but not limited to files stored on a computer's hard drive or on floppy disks), electronic files and records in any other medium relating to the business, operations or condition of such Person.

"BUSINESS DAY" means a day other than Saturday, Sunday or any day on which banks located in the State of Colorado are authorized or obligated to close.

"LICENSES AND CERTIFICATION" means the Medicare Provider Certification, the Medicaid Certification and related licenses and permits necessary for the operation of the Company's business.

"CASH PURCHASE PRICE" has the meaning set forth in SECTION 2.2(B).

"CLAIM NOTICE" has the meaning set forth in SECTION 7.2(D).

"CLAIMED AMOUNT" has the meaning set forth in SECTION 7.2(D).

"CLOSING" has the meaning set forth in SECTION 2.4(A).

"CLOSING DATE" has the meaning set forth in SECTION 2.4(A).

"CNSR PARTIES" has the meaning set forth in SECTION 7.2(A).

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMPANY DISCLOSURE SCHEDULE" means the disclosure schedule attached hereto which sets forth the exceptions to the representations and warranties contained in ARTICLE III hereof and certain other information called for by this Agreement.

"COMPANY INTELLECTUAL PROPERTY" means any Intellectual Property relating to the Company and its business that is owned or licensed to the Company.

"COMPANY STOCK" has the meaning set forth in the first recital of this Agreement.

"DAMAGES" has the meaning set forth in SECTION 7.2(A).

"DEFINED BENEFIT PLAN" means each Benefit Plan which is subject to Part 3 of Title I of ERISA, Section 412 of the Code or Title IV of ERISA.

"EMPLOYMENT AGREEMENT" has the meaning set forth in SECTION 2.4(B)(VII).

"DISPUTE" has the meaning set forth in SECTION 7.2(D).

"ENCUMBRANCES" means any mortgage, pledge, assessment, security interest, deed of trust, lease, lien, adverse claim, levy, charge or other encumbrance of any kind, or any conditional sale or title retention agreement or other agreement to give any of the foregoing in the future.

"ENVIRONMENTAL AND OCCUPATIONAL LAWS" has the meaning set forth in SECTION 3.19.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"ERISA AFFILIATE" means any entity which is a member of a "controlled group of corporations" or which is or was under "common control" with the Company as defined in Section 414 of the Code.

"EXCLUDED A/RS" has the meaning set forth in SECTION 2.3(A).

"EXCLUDED ASSETS" has the meaning set forth in SECTION 2.3(A).

"EXCLUDED LIABILITIES" has the meaning set forth in SECTION 2.3(B).

"FINANCIAL STATEMENTS" means (i) the unaudited balance sheet of the Company and the related unaudited statement of income and retained earnings for the period beginning October 1, 2006 and ending September 30, 2007, and (ii) the Interim Financial Statements for the Company.

"GOVERNMENTAL OR REGULATORY AUTHORITY" means any court, tribunal, arbitrator, authority, agency, commission, official or other

instrumentality of the United States or other country, any state, county, city or other political subdivision.

"INTELLECTUAL PROPERTY" means (i) inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions and reexaminations thereof; (ii) trademarks, service marks, trade dress, logos, trade names, domain names and corporate names, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith, copyrightable works, all copyrights and all applications, registrations and renewals in connection therewith; (iii) mask works and all applications, registrations and renewals in connection therewith; (iv) trade secrets and confidential business

information (including product specifications, data, know-how, past, current and planned research and development, current and planned research and distribution methodologies and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans), however documented; (v) proprietary computer software and programs (including object code and source code) and other proprietary rights and copies and tangible embodiments thereof (in whatever form or medium); (vi) database technologies, systems, structures and architectures (and related processes, formulae, compositions, improvements, devices, know-how, inventions, discoveries, concepts, ideas, designs, methods and information) and any other related information, however, documented; (vii) any and all information concerning the business and affairs of a Person (which includes historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel and personnel training and techniques and materials), however documented; (viii) any and all notes, analysis, compilations, studies, summaries, and other material prepared by or for a Person containing or based, in whole or in part, on any information included in the foregoing, however documented; (ix) all industrial designs and any registrations and applications therefor; (x) all databases and data collections and all rights therein; and (xi) any similar or equivalent rights to any of the foregoing anywhere in the world.

"INTERIM FINANCIAL STATEMENTS" means the unaudited balance sheet and the related unaudited statement of income and retained earnings for the Company for period between October 1, 2007 and the Closing Date.

"KEY EMPLOYEES" has the meaning set forth in SECTION 6.2(F).

"KNOWLEDGE OF THE COMPANY" or "KNOWN TO THE COMPANY" means the actual knowledge of Dr. Hoffman, including the knowledge Dr. Hoffman would have had in the exercise of reasonable diligence customary for a sole shareholder and chief executive officer.

"KNOWN EXCLUDED LIABILITIES" has the meaning set forth in Section 7.7.

"LIABILITIES" means any liability (whether known or unknown, whether asserted, or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including but not limited to any liability for Taxes (as defined below).

"MATERIAL ADVERSE EFFECT" means, for any Person, a material adverse effect whether individually or in the aggregate (a) on the business, operations, financial condition, Assets and Properties or Liabilities of such Person, or (b) on the ability of such Person to consummate the transactions contemplated hereby.

"NON-SOLICITATION AGREEMENT" has the meaning set forth in SECTION 2.4(B)(II).

"OFFSET AMOUNT" has the meaning set forth in SECTION 7.3(A).

"OFFSET DISPUTE NOTICE" has the meaning set forth in SECTION 7.3(A).

"ORDER" means any writ, judgment, decree, injunction or similar order of any Governmental or Regulatory Authority (in each such case whether preliminary or final).

"ORDINARY COURSE OF BUSINESS" means the action of a Person that is consistent with the past practices of such Person and is taken in the

ordinary course of the normal day-to-day operations of such Person.

"PERMITS" means all licenses, permits, certificates of authority, authorizations, approvals, registrations and similar consents (including, without limitation, the Licenses and Certification) granted or issued by any Governmental or Regulatory Authority.

"PERMITTED ENCUMBRANCE" means (a) any Encumbrance for taxes not yet due or delinquent or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with Accounting Principles, (b) any minor imperfection of title or similar Encumbrance which individually or in the aggregate with other such Encumbrances does not create a Material Adverse Effect, and (c) any Encumbrances that would be discoverable by a survey or from a review of the public records.

"PERSON" means any natural person, corporation, general partnership, limited partnership, limited liability company, proprietorship, other business organization, trust, union, association or Governmental or Regulatory Authority.

"PLAN" means any bonus, incentive compensation, deferred compensation, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, accident, disability, workers' compensation or other insurance, severance, separation or other employee benefit plan, practice, policy or arrangement of any kind, whether written or oral, including, but not limited to, any "employee benefit plan" within the meaning of Section 3(3) of ERISA.

"PURCHASE PRICE" has the meaning set forth in SECTION 2.2(A).

"REAL PROPERTY" has the meaning set forth in SECTION 3.13.

"RESPONSE" has the meaning set forth in SECTION 7.2(D).

"TAX" (and, with correlative meaning, "Taxes," "Taxable" and "Taxing") means (i) any federal, state, local or foreign income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount imposed by any Governmental or Regulatory Authority responsible for the imposition of any such tax (domestic or foreign), (ii) any Liability for payment of any amounts of the type described in (i) as a result of being a member of an affiliated, consolidated, combined, unitary or other group for any Taxable period and (iii) any Liability for the payment of any amounts of the type described in (i) or (ii) as a result of any express or implied obligation to indemnify any other person.

"TAX LOSSES" has the meaning set forth in SECTION 7.2(E).

"TAX RETURN" means any return, report, information return, schedule or other document (including any related or supporting information) filed or required to be filed with respect to any taxing authority with respect to Taxes.

"TERM" has the meaning set forth in SECTION 2.2(C).

"THRESHOLD AMOUNT" has the meaning set forth in SECTION 7.4(A).

1.2 CONSTRUCTION OF CERTAIN TERMS AND PHRASES. Unless the context of this Agreement otherwise requires, (a) words of any gender include each other gender; (b) words using the singular or plural number also include the plural or singular number, respectively; (c) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (d) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; (e) the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or"; and (f) "including" means "including without limitation." Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. All accounting terms used herein and not expressly defined herein shall have the meanings given to them under generally accepted accounting principles.

ARTICLE II
PURCHASE AND SALE OF STOCK

2.1 SALE OF COMPANY STOCK BY DR. HOFFMAN. Subject to the terms and conditions of this Agreement, Dr. Hoffman shall sell to CNSR all of the

shares of the Company Stock and to deliver the original certificates evidencing the Company Stock to CNSR at the Closing. The certificates for the Company Stock will be properly endorsed for transfer to or accompanied by duly executed stock power in favor of CNSR and otherwise in a form acceptable for transfer on the books of the Company. If any such original certificates shall have been lost, stolen or destroyed, then Dr. Hoffman shall deliver an affidavit of lost certificate in form reasonably acceptable to CNSR.

2.2 PURCHASE OF COMPANY STOCK BY CNSR.

(a) PURCHASE PRICE. Subject to the terms and conditions in this Agreement, CNSR shall acquire the Company Stock from Dr. Hoffman and pay to Dr. Hoffman in exchange for the Company Stock an aggregate purchase price equal to Three Hundred Thousand Dollars ($300,000) (the "Purchase Price"), payable in the manner set forth in SECTIONS 2.2(B) and (C) below.

(b) CASH PURCHASE PRICE. At the Closing, CNSR will pay to Dr. Hoffman an aggregate of Eight Thousand Three Hundred Thirty Three Dollars and Thirty Three Cents ($8,333.33) in cash (the "Cash Purchase Price").

(c) PAYMENT SCHEDULE. The remainder of the Purchase Price, Two Hundred Ninety One Thousand Six Hundred Sixty Six Dollars and Sixty Seven Cents ($291,666.67), shall be paid to Dr. Hoffman pursuant to the schedule set forth on SCHEDULE 2.2 attached hereto in cash in thirty-five (35) equal installments beginning on the first day of the month following the Closing Date and continuing on the first day of each subsequent month until paid in full.

2.3 EXCLUDED AND ASSUMED ASSETS AND LIABILITIES.

(a) EXCLUDED ASSETS. Notwithstanding anything to the contrary in this Agreement, (i) certain office furniture, such as the desk in Dr. Rosenbach's office and the furniture in Dr. Hoffman's office, and (ii) personally owned artwork, all as described on SCHEDULE 2.3(A) attached hereto, (collectively, the "Excluded Assets"), shall become assets of Dr. Hoffman immediately prior to the Closing but may be used by CNSR at no charge for so long as Dr. Hoffman remains employed by CNS Response, Inc. and does not exercise the repurchase option contained in Section 7.8 below.

(b) EXCLUDED LIABILITIES. Notwithstanding anything to the contrary in this Agreement, CNSR is not required to, and shall not, assume, pay, perform, defend or discharge any of the Company's liabilities or obligations arising out of or in connection with the operation of the Company prior to the Closing, including, without limitation, accounts payable, any existing debt (including debt owed to Dr. Hoffman), any and all liabilities for shareholder-related matters, any and all liabilities and obligations for employment related matters, any and all severance payments for the Company's employees, equipment leases not expressly included on SCHEDULE 2.3(C) attached hereto, contingent liabilities, real estate leases (except as otherwise provided in SECTION 2.3(C) below), and the liabilities described in SECTION 7.5 below (collectively, the "Excluded Liabilities"). The Excluded Liabilities shall be distributed to and assumed by Dr. Hoffman immediately prior to Closing in a manner reasonably satisfactory to CNSR. Dr. Hoffman shall forgive all loans owed to him by the Company as of the Closing Date.

(c) ASSUMED ASSETS AND LIABILITIES. CNSR will assume all of the Company's assets except the Excluded Assets (the "Assumed Assets"), and (ii) those liabilities of the Company that are incurred by CNSR on or after the Closing and arise out of CNSR's operations of the Company on or after the Closing (the "Assumed Liabilities").

2.4 CLOSING.

(a) TIME AND PLACE. The consummation of the purchase and sale of the Company Stock under this Agreement ("Closing") shall be effective as of 11:59 p.m. January 11, 2008 ("Closing Date").

(b) CLOSING DELIVERIES BY THE COMPANY AND DR. HOFFMAN. On or before the Closing, the Company and Dr. Hoffman shall have delivered or caused to be delivered to CNSR:

(i) the original stock certificates representing all of the issued and outstanding shares of Company Stock owned by Dr. Hoffman (or an affidavit of lost certificate in form reasonably acceptable to CNSR), duly endorsed in blank (or accompanied by duly executed stock power);

(ii) a Non-Solicitation Agreement by and between CNSR and Dr. Hoffman, substantially in the form of EXHIBIT A attached hereto (the "Non-Solicitation Agreement"), duly executed by Dr. Hoffman.

(iii) a certificate of an officer of the Company, substantially in the form of EXHIBIT B attached hereto, duly executed by the Company;

(iv) a certificate of Dr. Hoffman, substantially in the form of EXHIBIT C attached hereto, duly executed by Dr. Hoffman;

(v) a certificate of the Secretary of the Company substantially in the form of EXHIBIT D attached hereto, certifying as of the Closing Date (A) a true and complete copy of the Articles of Incorporation of the Company certified by the Colorado Secretary of State as of a date no more than ten (10) days prior to the Closing Date, (B) a certificate of the Secretary of State of Colorado dated as of a date no more than ten (10) days prior to the Closing Date, certifying the good standing of the Company, (C) a true and complete copy of the resolutions of the board of directors of the Company and Dr. Hoffman authorizing the execution, delivery and performance of this Agreement by the Company and the consummation of the transactions contemplated hereby and (D) incumbency matters;

(vi) resignation letter of each of the officers and directors of the Company, dated effective as of the Closing;

(vii) an employment agreement by and between CNSR and Dr. Hoffman, substantially in the form EXHIBIT E attached hereto (the "Employment Agreement"), duly executed by Dr. Hoffman;

(viii) such other documents as CNSR may reasonably request for the purposes of facilitating the consummation of the transactions contemplated herein.

(c) CLOSING DELIVERIES BY CNSR. On or before the Closing, CNSR shall have delivered or caused to be delivered to Dr. Hoffman:

(i) the Cash Purchase Price, by wire transfer in immediately available funds to an account designated by Dr. Hoffman pursuant to SCHEDULE 2.2 attached hereto;

(ii) the Employment Agreement, duly executed by CNSR;

(iii) the Non-Solicitation Agreement, duly executed by CNSR;

(iv) a certificate of an officer of CNSR, substantially in the form of EXHIBIT F attached hereto, duly executed by an officer of CNSR; and

(v) such other documents as Dr. Hoffman may reasonably request for the purposes of facilitating the consummation of the transactions contemplated herein.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF DR. HOFFMAN ABOUT THE COMPANY

Dr. Hoffman represents and warrants to CNSR as of the Closing Date, except as set forth on the Company Disclosure Schedule furnished to CNSR specifically identifying the relevant section hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder, as follows:

3.1 ORGANIZATION OF THE COMPANY. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Colorado. The Company is duly authorized to conduct its business in Colorado as it is currently conducted. The Company does not conduct business outside of the State of Colorado. The Company has full corporate power and corporate authority, and holds all material Permits and authorizations necessary to carry on its business and to own and use the Assets and Properties currently owned and used by the Company. The Company has delivered to CNSR correct and complete copies of its charter documents and other organizational documents,

each as amended to date.

3.2 CAPITAL STOCK OF THE COMPANY. The authorized capital stock of the Company consists solely of Ten Thousand (10,000) shares of common stock, no par value, all of which have been issued to Dr. Hoffman. There are no shares in treasury and no shares of Preferred Stock authorized. No shares of the Company's capital stock have been issued since October 31, 1994. The capital stock of the Company is duly authorized, validly issued, fully paid and nonassessable. Except for this Agreement, there are no outstanding subscriptions, options, warrants, calls, commitments or other rights of any kind for the purchase or acquisition of, nor any securities convertible or exchangeable for, any capital stock of the Company.

3.3 AUTHORITY OF THE COMPANY. The Company has all necessary corporate power and corporate authority and, except for the filings necessary to convert the Company into a provider network entity under Colorado law, has taken all corporate action necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder and no other proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

3.4 NO AFFILIATES. The Company does not have any Affiliates and is not a partner in any partnership or a party to a joint venture.

3.5 NO CONFLICTS. The execution and delivery by the Company of this Agreement does not, and the performance by the Company of its obligations under this Agreement and the consummation of the transactions contemplated hereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the charter documents, bylaws or other organizational documents of the Company;

(b) conflict with or result in a violation or breach of any term or provision of any law, Order, Permit, statute, rule or regulation applicable to the Company or any of the businesses, Assets or Properties of the Company, where such conflict, violation or breach would have a Material Adverse Effect on the Company;

(c) result in a breach of, or default under (or give rise to right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any Permit, note, bond, mortgage, indenture, license, agreement, lease or other similar instrument or obligation to which the Company or, any of its Assets and Properties may be bound; or

(d) result in an imposition or creation of any Encumbrance on the business or Assets or Properties of the Company.

3.6 CONSENTS AND GOVERNMENTAL APPROVALS AND FILINGS. Except for the filings necessary to convert the Company into a provider network entity under Colorado law, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or any other non-Governmental or Regulatory third party on the part of the Company, prior to the Closing, is required in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, other than as provided in the Company Disclosure Schedule. The Company makes no representation as to the necessity of filing any notices or other filings on or after the Closing Date with any Governmental or Regulatory Authority.

3.7 BOOKS AND RECORDS. The minute books and other corporate records of the Company as made available to CNSR contain a true and complete record, in all material respects, of all actions taken at all meetings and by all written consents in lieu of meetings of Dr. Hoffman, the board of directors and committees of the board of directors of the Company. The stock transfer ledgers and other similar records of the Company accurately reflect all issuances and record transfers in the capital stock of the Company. The other Books and Records of the Company are true, correct and complete.

3.8 FINANCIAL STATEMENTS AND ACCOUNTS RECEIVABLE.

(a) The Company has previously delivered to CNSR the Financial Statements. The Financial Statements (i) are true, correct and complete, (ii) are in accordance with the Books and Records of the Company, (iii) have been prepared in conformity with Accounting Principles, and (iv) fairly present the

financial condition and results of operations of the Company, as of the respective dates thereof and for the periods covered thereby; PROVIDED that the Financial Statements lack footnotes and certain other presentation items.

(b) All accounts receivable of the Company reflected in the Interim Financial Statements are bona fide receivables and represent amounts due with respect to actual, arms-length transactions entered into in the Ordinary Course of Business, as adjusted as shown in the "balance" column of such Interim Financial Statements. Such receivables are (i) legal, valid and binding

obligations of the obligors, (ii) subject to no known setoffs or counterclaims, except for customary contractual payment adjustments imposed by third party payors, and (iii) are current and collectible (within 1 year after the date on which they first became due and payable), net of the applicable reserve for bad debts on the Interim Financial Statements.

3.9 ABSENCE OF CHANGES. Since the date of Interim Financial Statements and up to the Closing Date, the Company and Dr. Hoffman have conducted the Company's business only in the Ordinary Course of Business and there has not been any Material Adverse Effect on the Company, or to the Knowledge of the Company, any event or development which, individually or together with other such events, could reasonably be expected to result in a Material Adverse Effect on the Company, including, without limitation, any change to the material contracts listed in Section 3.18 of the Company Disclosure Schedule, decline in revenue or loss of employees, and since the end of the period covered by the Interim Financial Statements, the Company has not taken any action which if taken after the date of this Agreement, without CNSR's consent, would violate SECTION 3.26 hereof.

3.10 NO UNDISCLOSED LIABILITIES. Except as disclosed in the Financial Statements, there are no Liabilities, nor, to the Knowledge of the Company, any basis for any claim against the Company for any such Liabilities, relating to or affecting the Company, other than Liabilities incurred after the end of the period covered by the Interim Financial Statements in the Ordinary Course of Business which have not had, and could not reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect on the Company.

3.11 TANGIBLE PERSONAL PROPERTY. The Company is in possession of and has good and marketable title to, or has valid leasehold interests in or valid rights under written agreements to use, all tangible personal property, equipment, plants, buildings, structures, facilities and all other tangible Assets and Properties material to the conduct of the Company's business as it is presently conducted, including all tangible personal property listed in Section 3.11. All such tangible personal property, equipment, plants, buildings, structures, facilities and all other tangible Assets and Properties are listed in Section 3.11 of the Company Disclosure Schedule and are free and clear of all Encumbrances, other than Permitted Encumbrances.

3.12 BENEFIT PLANS; ERISA.

(a) The Company has no commitment, proposal, or communication to employees regarding the creation of a Plan or any increase in benefits under any Benefit Plan. The Company has no ERISA Affiliates.

(b) The Company has no Benefit Plans that provide benefits, including without limitation death or medical benefits (whether or not insured), with respect to current or former employees of the Company or any ERISA Affiliate beyond their termination of service (other than (i) coverage mandated by applicable law, (ii) deferred compensation benefits accrued as liabilities on the books of the Company or (iii) benefits the full cost of which is borne by any current or former employee (or his or her beneficiary)).

(c) The consummation of the transactions contemplated by this Agreement will not, either immediately or upon the occurrence of any event thereafter, (i) entitle any current or former employee or officer or director of the Company to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation otherwise due any such individual.

(d) There are no pending or, to the Knowledge of the Company, anticipated or threatened claims by or on behalf of any Benefit Plan, by any employee or beneficiary covered under any such Benefit Plan, or otherwise involving any such Benefit Plan (other than routine claims for benefits).

3.13 REAL PROPERTY. Section 3.13 of the Company Disclosure Schedule contains a complete list of each parcel of real property leased by the

Company (as lessee or lessor) (the "Real Property") and (ii) to the Knowledge of the Company, all Encumbrances (other than Permitted Encumbrances) relating to or affecting the Real Property. The Company does not own any real property. The Company has a valid leasehold interest in the Real Property. Each lease with respect to the Real Property is a legal, valid and binding agreement of the Company subsisting in full force and effect enforceable in accordance with its terms, and there is no, and the Company has not received notice of any, default (or any condition or event which, after notice or lapse of time or both, would constitute a default) thereunder. The Company does not owe any brokerage commissions with respect to any such Real Property. There are no Encumbrances (other than Permitted Encumbrances) against the Company by or on behalf of tenants occupying office space adjacent to the Real Property.

3.14 INTELLECTUAL PROPERTY RIGHTS. Section 3.14 of the Company Disclosure Schedule contains a true, complete and correct list of all of the Company Intellectual Property owned by the Company and Section 3.14 of the Company Disclosure Schedule contains a true, complete and correct list of all Company Intellectual Property that the Company uses pursuant to a license, sublicense or agreement (other than commercially available over-the-counter "shrink-wrap" software). The Company has delivered to CNSR complete and accurate copies of each agreement, registration and other documents relating to the Company Intellectual Property set forth in Sections 3.14 of the Company Disclosure Schedule.

3.15 LITIGATION. There are no Actions or Proceedings pending or threatened or, to the Knowledge of the Company, anticipated against, relating to or affecting (i) the Company or (ii) the transactions contemplated by this Agreement, and to the Knowledge of the Company, there is no basis for any such Action or Proceeding. The Company is not in default with respect to any Order, and there are no unsatisfied judgments against the Company.

3.16 COMPLIANCE WITH LAW. Except for the filings necessary to convert the Company into a provider network entity under Colorado law, the Company is in compliance with all applicable laws, statutes, Orders, ordinances and regulations, whether federal, state, local or foreign, including, without limitation, compliance with all statutes and obligations related to the Licenses and Certification, except where the failure to comply, in each instance and in the aggregate, could not reasonably be expected to result in a Material Adverse Effect on the Company. The Company has not received any written notice to the effect that, or otherwise has been advised that, the Company is not in compliance with any of such laws, statutes, Orders, ordinances or regulations.

3.17 CONTRACTS. Section 3.17 of the Company Disclosure Schedule contains a true and complete list of each material written or oral contract, agreement or other arrangement to which the Company is a party or by which any of its Assets and Properties is bound (and, to the extent oral, accurately describes the terms of such contracts, agreements and arrangements). Each contract, agreement or other arrangement disclosed in Section 3.17 of the Company Disclosure Schedule is in full force and effect and constitutes a legal, valid and binding agreement, enforceable in accordance with its terms, of each party thereto; and the Company has performed all of its required obligations under, and is not in violation or breach of or default under, any such contract, agreement or arrangement. To the Knowledge of the Company, the other parties to any such contract, agreement or arrangement are not in violation or breach of or default under any such contract, agreement or arrangement. To the Knowledge of the Company, none of the present or former employees, officers, directors or shareholders of the Company is a party to any oral or written contract or agreement prohibiting any of them from freely competing with other parties or engaging in the Company's as now operated. To the Knowledge of the Company, the consummation of the transactions contemplated in this Agreement will not result in a breach of, or default under (or give rise to the right of termination, cancellation or acceleration) under any of the terms, conditions or provision of any of the contracts, agreements or arrangements listed in Section 3.17 of the Company Disclosure Schedule.

3.18 OCCUPATIONAL MATTERS. The Company has not been and currently is not in violation of any applicable statute, law or regulation relating to occupational health and safety ("Occupational Laws"), except where such violation could not reasonably be expected to result in a Material Adverse Effect on the Company. There is no claim or notice of a violation of Occupational Laws (i) pending or, to the Knowledge of the Company, threatened against the Company or (ii) to the Knowledge of the Company, pending or threatened against any Person whose liability for such violation may have been retained or assumed by or could reasonably be imputed or attributed to the Company.

3.19 PERMITS. Section 3.19 the Company Disclosure Schedule contains a true and complete list of all Permits used in and material, individually or in the aggregate, to the Company's business. All such Permits are currently effective and valid and have been validly issued. No additional Permits are necessary to enable the Company to conduct its business in

compliance with all applicable federal, state and local laws, except where such non-compliance could not reasonably be expected to result in a Material Adverse Effect on the Company. Neither the execution, delivery or performance of this Agreement by the Company, prior to Closing, nor the mere passage of time will have any effect on the continued validity or sufficiency of the Permits (except that CNSR will be required to file various post-Closing notices to ensure that the Permits remain in effect), nor to the Knowledge of the Company, will any additional Permits be required by virtue of the execution, delivery or performance of this Agreement to enable the Company to conduct its business as now operated. There is no pending Action or Proceeding by any Governmental or Regulatory Authority which could have a Material Adverse Effect on the Company. The Company has provided CNSR with true and complete copies of all Permits listed in SECTION 3.19 of the Company Disclosure Schedule.

3.20 EQUIPMENT. All equipment listed in Section 3.11 of the Company Disclosure Schedule is in good operating condition and repair (subject to normal wear and tear) so as to permit the operation of the Company's business as presently conducted. To the Company's Knowledge, no such equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs which would not have a Material Adverse Effect on the Company.

3.21 INSURANCE. Set forth in Section 3.21 of the Company Disclosure Schedule is a complete and accurate list of all primary, excess and umbrella policies, bonds and other forms of insurance currently owned or held by or on behalf of and/or providing insurance coverage to the Company or the Assets and Properties of the Company (or any of the Company's directors, officers, salespersons, agents or employees). All policies set forth in Section 3.21 of the Company Disclosure Schedule are in full force and effect, and with respect to such policies, all premiums currently payable or previously due have been paid, and no notice of cancellation or termination has been received with respect to any such policy. Complete and accurate copies of all such policies and related documentation have previously been provided to CNSR.

3.22 TAX MATTERS.

(a) Reserved.

(b) The Company has or will have filed with the appropriate federal, state, local and foreign taxing authorities all Tax Returns required to be filed by or with respect to it on or before the Closing Date and required to be filed for the period through the Closing Date, and such Tax Returns shall be prepared by a certified public accountant. The Company has paid in full or has made provision in the Financial Statements and the Interim Financial Statements for all taxes which are due or claimed to be due from it by any taxing authority. To the Knowledge of the Company, the Company has not incurred any liability for Taxes other than in the ordinary course of its business since the date of the most recent Interim Financial Statement. There are no liens for Taxes upon the Assets and Properties of the Company except for statutory liens for current Taxes not yet due.

(c) The Company has not requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed or waived any statute of limitations for, or agreed to any extension of time with respect to, the assessment of Taxes. The Company has not received any notice of deficiency or assessment from any federal, state, local or foreign taxing authorities with respect to liabilities for Taxes which have not been fully paid or finally settled, and any such deficiency or assessment shown in Section 3.22 of the Company Disclosure Schedule is being contested in good faith through appropriate proceedings. Dr. Hoffman is not aware of any information which has caused or should cause him to believe that an audit by any Tax authority may be forthcoming. No valid claim has ever been made by an authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

(d) The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, Dr. Hoffman, or other third party.

(e) The Company has delivered to CNSR (i) its federal and state income tax returns for its three (3) most recent fiscal years, and for any other tax years for which the applicable statute of limitations has not expired and (ii) copies of all federal and state tax audits, if any.

3.23 LABOR AND EMPLOYMENT RELATIONS. Except as set forth in Schedule 3.23 of the Company Disclosure Schedule, to the Knowledge of the Company, no officer, executive or employees of the Company has or have any plans to terminate his, her or their employment with the Company. The Company is not a

party to or bound by any collective bargaining agreement with any labor organization, group or association covering any of its employees and there are no attempts to organize any of the Company's employees by any person, unit or group seeking to act as their bargaining agent. The Company has complied with all applicable laws relating to the employment of labor, including provisions thereof relating to wages, hours, equal opportunity, collective bargaining, discrimination against race, color, national origin, religious creed, physical or mental disability, sex, age, ancestry, medical condition, marital status or sexual orientation, and the withholding and payment of social security and other taxes, except where such non-compliance could not reasonably be expected to result in a Material Adverse Effect on the Company. There are no pending or, to the Knowledge of the Company, threatened charges (by employees, their representatives or governmental authorities) of unfair labor practices or of employment discrimination or of any other wrongful action with respect to any aspect of employment of any person employed or formerly employed by the Company. There is no investigation of the Company's employment policies or practices by any Governmental or Regulatory Authority pending or threatened. The Company has conducted comprehensive background checks on all of its employees and caregivers and has used its best efforts to check the references of its employees and caregivers, provided that the Company has not conducted drug testing on all of its employees. All files and Books and Records relating to the Company's employees and caregivers are true, correct and complete. The Company has completed I-9 forms for all of its employees, if legally required.

3.24 CERTAIN EMPLOYEES. Set forth in Section 3.24 of the Company Disclosure Schedule is a list of the names of the Company's employees and consultants as of the date hereof involved in the management and business operations of the Company, together with the title or job classification of each such person and the total compensation (with wages and bonuses, if any, separately detailed) paid in 2006 (if applicable) and the current rate of pay for each such person on the date of this Agreement. None of such persons has an employment agreement or understanding, whether oral or written, with the Company which is not terminable on notice by the Company without cost or other liability to the Company. Except as set forth in Section 3.24 of the Company Disclosure Schedule, all of the Company's employees have signed a document releasing the Company from any liability to the respective employee for claims of unlawful discrimination, wrongful termination, unpaid compensation or unpaid and accrued benefits.

3.25 ABSENCE OF CERTAIN DEVELOPMENTS. Except for the filings necessary to convert the Company into a provider network entity under Colorado law, since October 1, 2007 the Company has not:

(a) issued any stock, bonds or other corporate securities or any right, options or warrants with respect thereto;

(b) borrowed any amount, obtained any letters of credit or incurred or become subject to any Liabilities in excess of Five Thousand Dollars ($5,000) in the aggregate;

(c) discharged or satisfied any lien or Encumbrance or paid any obligation or Liability, other than current Liabilities paid in the Ordinary Course of Business and other than current federal income Tax liabilities;

(d) declared or made any payment or distribution of cash or other property to Dr. Hoffman with respect to its stock, or purchased or redeemed any shares of its capital stock;

(e) mortgaged or pledged any of its Assets or Properties, or subjected them to any lien, charge or any other Encumbrance, except liens for current property Taxes not yet due and payable;

(f) sold, leased, subleased, assigned or transferred any of its Assets or Properties, except in the Ordinary Course of Business, or cancelled any debts or claims;

(g) made any changes in any employee compensation, severance or termination agreement, commitment or transaction other than routine salary increases consistent with past practice or offer employment to any individuals;

(h) entered into any material transaction, or modified any existing transaction (the aggregate consideration for which is in excess of Ten Thousand Dollars ($10,000);

(i) suffered any damage, destruction or casualty loss, whether or not covered by insurance, which would have a Material Adverse Effect on the Company;

(j) made any capital expenditures, additions or improvements or commitments for the same, except those made in the Ordinary Course of Business which in the aggregate do not exceed Five Thousand Dollars ($5,000);

(k) entered into any transaction or operated the Company's business, not in the Ordinary Course of Business;

(l) made any change in its accounting methods or practices or ceased making accruals for taxes, obsolete inventory, vacation and other customary accruals;

(m) ceased from reserving cash to pay taxes, principal and interest on borrowed funds, and other customary expenses and payments;

(n) caused to be entered into any amendment or termination of any lease, customer or supplier contract or other material contract or agreement to which it is a party, except in the Ordinary Course of Business;

(o) made any material change in any of its business policies, including, without limitation, advertising, distributing, marketing, pricing, purchasing, personnel, sales, returns, budget or product acquisition or sale policies;

(p) terminated or failed to renew, or received any written threat (that was not subsequently withdrawn) to terminate or fail to renew, any contract or other agreement that is or was material to the Company's business or its financial condition;

(q) permitted to occur or be made any other event or condition of any character which has had a Material Adverse Effect on it;

(r) waived any rights to its financial or business condition that would have a Material Adverse Effect on the Company;

(s) made any illegal payment or rebates; or

(t) entered into any agreement to do any of the foregoing.

3.26 PATIENTS. Subject to CNSR's compliance with the Health Insurance Portability and Accountability Act of 1996 and its regulations ("HIPAA"), the Company has previously provided to CNSR a true and correct list of the Company's patients during the 2005, 2006 and 2007 fiscal years. No single patient or group of affiliated patients contributing more than Ten Thousand Dollars ($10,000) per annum to the gross revenues of the Company has notified the Company of its intention to discontinue doing business or materially reduce the business that it does with the Company.

3.27 PAYOR CLAIMS AND COST REPORTS.

(a) All claims for reimbursement prepared and delivered by Company to any health maintenance organization, preferred provider organization, any other prepaid plan, any health care service plan, any other third party payor, Medicare and Medicaid have been prepared in accordance with all rules, regulations, policies and procedures pertaining to the applicable payor, and all such claims have been prepared in an accurate and complete manner.

(b) Reserved.

3.28 NECESSARY PROPERTY. To the Knowledge of the Company, all of the Assets and Properties listed in Sections 3.11 and 3.14 of the Company Disclosure Schedule constitute all of the property reasonably necessary for the conduct of the Company's business in the manner and to the extent presently conducted by the Company.

3.29 BANK ACCOUNTS. Section 3.29 of the Company Disclosure Schedule contains a complete and accurate list of each deposit account or asset maintained by or on behalf of the Company with any bank, brokerage house or other financial institution, specifying with respect to each the name and address of the institution, the name under which the account is maintained, the account number, and the name and title or capacity of each Person authorized to have access thereto.

3.30 BROKERS. The Company has not retained any broker in connection with the transactions contemplated hereunder. CNSR has, and will have, no obligation to pay any broker's, finder's, investment banker's, financial advisor's or similar fee in connection with this Agreement or the transactions contemplated hereby by reason of any action taken by or on behalf of or the Company.

3.31 MATERIAL MISSTATEMENTS AND OMISSIONS. The statements,

representations and warranties of the Company contained in this Agreement (including the exhibits and schedules hereto) and in each document, statement, certificate or exhibit furnished or to be furnished by or on behalf of the Company pursuant hereto, or in connection with the transactions contemplated hereby, taken together, do not contain and will not contain any untrue statement of a material fact and do not and will not omit to state a material fact necessary to make the statements or facts contained herein or therein, in light of the circumstances made, not misleading.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF DR. HOFFMAN

Dr. Hoffman represents and warrants to CNSR as of the Closing as follows:

4.1 OWNERSHIP OF COMPANY STOCK. Subject to the conversion of the Company into a provider network entity under Colorado law, Dr. Hoffman owns beneficially and of record all the shares of Company Stock issued to him free and clear of all Encumbrances. The delivery of the stock certificate representing the Company Stock owned by Dr. Hoffman in the manner provided in SECTION 2.4(B)(I) will, subject to the conversion of the Company into a provider network entity under Colorado law, transfer to CNSR good and valid title to all of Dr. Hoffman's Company Stock free and clear of all Encumbrances.

4.2 AUTHORITY OF DR. HOFFMAN. Dr. Hoffman has all necessary power and authority and has taken all action necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform Dr. Hoffman's obligations hereunder and no other proceedings on the part of Dr. Hoffman is necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Dr. Hoffman and constitutes a legal, valid and binding obligation of Dr. Hoffman enforceable against him in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

4.3 NO CONFLICTS. The execution and delivery by Dr. Hoffman of this Agreement does not, and the performance by Dr. Hoffman of his obligations under this Agreement and the consummation of the transactions contemplated hereby will not (a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of any agreement or Order to which Dr. Hoffman is a party or may be bound, or (b) result in an imposition or creation of any Encumbrance on the Company Stock.

4.4 BROKERS. Dr. Hoffman has not retained any broker in connection with the transactions contemplated hereunder. CNSR has, and will have, no obligation to pay any broker's, finder's, investment banker's, financial advisor's or similar fee in connection with this Agreement or the transactions contemplated hereby by reason of any action taken by or on behalf of Dr. Hoffman.

4.5 MATERIAL MISSTATEMENTS AND OMISSIONS. The statements, representations and warranties of Dr. Hoffman contained in this Agreement (including the exhibits and schedules hereto) and in each document, statement, certificate or exhibit furnished or to be furnished by or on behalf of Dr. Hoffman pursuant hereto, or in connection with the transactions contemplated hereby, taken together, do not contain and will not contain any untrue statement of a material fact and do not and will not omit to state a material fact necessary to make the statements or facts contained herein or therein, in light of the circumstances made, not misleading.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF CNSR

CNSR represents and warrants to Dr. Hoffman as of the Closing Date and as of the Closing, as follows:

5.1 ORGANIZATION OF CNSR. CNSR is a corporation duly organized, validly existing, and in good standing under the laws of the State of Colorado. CNSR is duly authorized to conduct its business as it is currently conducted and is in good standing under the laws of each jurisdiction where such qualification is required except for any jurisdiction where failure so to qualify would not have a Material Adverse Effect upon CNSR. CNSR has full corporate power and corporate authority, and holds all material Permits and authorizations necessary, to carry on the business in which it is engaged and to own and use the properties currently owned and used by it except where the failure to have such power and authority or to hold such license, permit or authorization would not have a Material Adverse Effect on CNSR.

5.2 AUTHORITY OF CNSR. CNSR has all necessary corporate power and corporate authority and has taken all corporate actions necessary to enter into this Agreement, to consummate the transactions contemplated hereby and to perform its obligations hereunder and no other proceedings on the part of CNSR are necessary to authorize this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by CNSR and constitutes a legal, valid and binding obligation of CNSR enforceable against CNSR in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

5.3 CONSENTS AND GOVERNMENTAL APPROVALS AND FILINGS. No consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other Persons on the part of CNSR is required in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, other than (i) the Medicare provider agreement necessary for CNSR to own and operate the Company as the owner of all of the issued and outstanding equity interest of the Company,

and (ii) the Medi-Cal provider agreement with CNSR necessary for CNSR to own and operate the Company as the owner of all of the issued and outstanding equity interest of the Company. In addition, CNSR may need to make various post-Closing notifications to ensure the Permits remain in full force and effect.

5.4 NO CONFLICTS. The execution and delivery by CNSR of this Agreement does not, and the performance by CNSR of its obligations under this Agreement and the consummation of the transactions contemplated hereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Certificate of Incorporation, as amended, bylaws or other organizational documents of CNSR;

(b) conflict with or result in a violation or breach of any term or provision of any law, Order, Permit, statute, rule or regulation applicable to CNSR or any of the businesses, Assets or Properties of CNSR, where such conflict, violation or breach would have a Material Adverse Effect on CNSR;

(c) result in a breach of, or default under (or give rise to right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other similar instrument or obligation to which CNSR, any of its Assets and Properties may be bound; or

(d) result in an imposition or creation of any Encumbrance on the business or Assets or Properties of CNSR.

5.5 COMPLIANCE WITH LAW. CNSR is in compliance with all applicable laws, statutes, Orders, ordinances and regulations, whether federal, state, local or foreign, except where the failure to comply, in each instance and in the aggregate, could not reasonably be expected to result in a Material Adverse Effect on CNSR. CNSR has not received any written notice to the effect that, or otherwise has been advised that, CNSR is not in compliance with any of such laws, statutes, Orders, ordinances or regulations. CNSR shall not, and shall ensure that its employees, subcontractors or other agents do not, disclose any patient information received by the Company as part of CNSR's diligence investigation.

5.6 LITIGATION. There are no Actions or Proceedings pending or threatened anticipated against, relating to or affecting the transactions contemplated by this Agreement, and there is no basis for any such Action or Proceeding. CNSR is not in default with respect to any Order, and there are no unsatisfied judgments against the Company.

5.7 BROKERS. CNSR has not retained a broker in connection with the transactions contemplated hereunder. The Company and Dr. Hoffman have, and will have, no obligation to pay any broker's, finder's, investment banker's, financial adviser's or similar fee in connection with this Agreement or the transactions contemplated hereby by reason of any action taken by or on behalf of CNSR.

5.8 MATERIAL MISSTATEMENTS AND OMISSIONS. The statements, representations and warranties of CNSR contained in this Agreement (including the exhibits and schedules hereto) and in each document, statement, certificate

or exhibit furnished or to be furnished by or on behalf of the CNSR pursuant

hereto, or in connection with the transactions contemplated hereby, taken together, do not contain and will not contain any untrue statement of a material fact and do not and will not omit to state a material fact necessary to make the statements or facts contained herein or therein, in light of the circumstances made, not misleading.

ARTICLE VI
CONDITIONS TO CLOSING

6.1 CONDITIONS TO THE CLOSING OF THE COMPANY AND DR. HOFFMAN. The obligations of the Company and Dr. Hoffman to effect the transactions contemplated hereby are subject to the satisfaction, at or before the Closing, of each of the following conditions:

(a) REPRESENTATIONS, WARRANTIES AND COVENANTS. All representations and warranties of CNSR contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date, and CNSR shall have performed all agreements and covenants required to be performed by it prior to or on the Closing Date.

(b) NO ACTIONS OR PROCEEDINGS. No Actions or Proceedings shall have been instituted or threatened which question the validity or legality of the transactions contemplated hereby.

(c) PERFORMANCE OF AGREEMENT. All covenants, conditions and other obligations under this Agreement which are to be performed or complied with by CNSR shall have been fully performed and complied with, or waived by the Company and Dr. Hoffman at or prior to the Closing.

(d) CLOSING DELIVERIES. CNSR shall have executed and delivered the documents required to be executed and delivered by CNSR pursuant to SECTION 2.4(C) above.

(e) CASH PURCHASE PRICE DELIVERY. CNSR shall have paid the Cash Purchase Price to Dr. Hoffman.

6.2 CONDITIONS TO THE OBLIGATIONS OF CNSR. The obligation of CNSR to effect the transactions contemplated hereby is subject to the satisfaction, at or before the Closing, of each of the following conditions:

(a) REPRESENTATIONS, WARRANTIES AND COVENANTS. All representations and warranties of the Company and Dr. Hoffman contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date, and the Company and Dr. Hoffman shall have performed all agreements and covenants required to be performed by them prior to or on the Closing Date.

(b) NO ACTIONS OR PROCEEDINGS. No Actions or Proceedings shall have been instituted or threatened which prohibit the transactions contemplated herein or question the validity or legality of the transactions contemplated hereby.

(c) MATERIAL ADVERSE EFFECT. Neither the Company nor Dr. Hoffman shall have acted in any manner which has created or could reasonably create any material adverse effect on the Company or the Company Stock, nor shall there be any event or development which, individually or together with other such events, could reasonably be expected to result in a material adverse effect on the Company or the Company Stock.

(d) PERFORMANCE OF AGREEMENT. All covenants, conditions and other obligations under this Agreement which are to be performed or complied with by the Company or Dr. Hoffman shall have been fully performed and complied with at or prior to the Closing.

(e) CLOSING DELIVERIES. The Company and Dr. Hoffman shall have executed and delivered the documents required to be executed and delivered by the Company or Dr. Hoffman pursuant to SECTION 2.4(B) above.

(f) EMPLOYMENT OF KEY EMPLOYEES. Each of the Company's employees set forth in Schedule 6.2(f) attached hereto (the "Key Employees") will have agreed to remain an employee of the Company or become an employee of CNSR.

(g) CONVERSION FILING. The Company and Dr. Hoffman shall have filed all documents and performed all other actions necessary to convert the Company into a provider network entity under Colorado law, including but not limited to the filing with the State of Colorado of Amended and Restated Articles of Incorporation and Bylaws, together with supporting Minutes signed by Dr. Hoffman, and the State of Colorado shall have approved such conversion of the Company into a provider network entity and not otherwise have objected to

the transactions contemplated by this Agreement.

ARTICLE VII
ACTIONS BY THE PARTIES AFTER THE CLOSING

7.1 SURVIVAL OF REPRESENTATIONS, WARRANTIES, ETC. The representations, warranties and covenants contained in or made pursuant to this Agreement or any certificate, document or instrument delivered pursuant to or in connection with this Agreement in the transactions contemplated hereby shall survive the execution and delivery of this Agreement and the Closing hereunder notwithstanding any investigation, analysis or evaluation by CNSR or its designees of the Assets and Properties or the business, operations or condition (financial or otherwise) of the Company, and thereafter the representations and warranties of Dr. Hoffman shall continue to survive in full force and effect for a period of two (2) calendar years after the Closing Date; provided, however, that (i) the representations and warranties set forth in SECTIONS 3.1, 3.2, 3.3, 4.1, 4.2, 5.1 and 5.2 shall survive indefinitely and (ii) the representations and warranties in SECTIONS 3.22 shall survive until the expiration of the all applicable statutes of limitation.

7.2 INDEMNIFICATION.

(a) BY DR. HOFFMAN. Dr. Hoffman shall indemnify, defend and hold harmless CNSR, and its officers, directors, employees, agents, successors and assigns (collectively the "CNSR Parties") from and against any and all costs, losses, Liabilities, damages, lawsuits, claims and expenses, reasonable attorneys' fees and all amounts paid in investigation, defense or settlement of any of the foregoing (collectively, the "Damages"), incurred in connection with, arising out of, resulting from or incident to (i) any breach of any representation or warranty made by the Company or Dr. Hoffman in or pursuant to this Agreement or any certificate, document, writing or instrument delivered by the Company or Dr. Hoffman pursuant to this Agreement or the contemplated transactions, (ii) any breach of any covenant or obligation of the Company or Dr. Hoffman in or pursuant to this Agreement or in any certificate, document, writing or instrument delivered by the Company or Dr. Hoffman pursuant to this Agreement or the contemplated transactions, (iii) any liability arising out of the ownership or operation of the Company's Assets or Properties prior to the Closing Date other than the Assumed Liabilities, (iv) any Excluded Assets or Excluded Liabilities, (v) any claims from federal or state agencies for reimbursement for overpayment for services provided by the Company during the period prior to the Closing Date, (vi) any Actions or Proceedings set forth in the Company Disclosure Schedule or in the other documents delivered in connection with the transactions contemplated in this Agreement, or (vii) performance or non-performance of Dr. Hoffman' obligations set forth in Section 7.5 below. Notwithstanding any provision to the contrary contained in this Agreement, Dr. Hoffman shall be under no liability to indemnify CNSR under this SECTION 7.2(A) and no claim under this SECTION 7.2(A) shall be made unless notice thereof shall have been given by or on behalf of CNSR to Dr. Hoffman pursuant to SECTION 7.2(D) below, unless failure to provide such notice in a timely manner does not materially impair Dr. Hoffman's ability to defend his rights, mitigate damages, seek indemnification from a third party or otherwise protect their interests.

(b) BY CNSR. CNSR shall indemnify, reimburse, defend and hold harmless Dr. Hoffman from and against any and all Damages incurred in connection with, arising out of, resulting from or incident to (i) any breach of any representation or warranty made by the CNSR in or pursuant to this Agreement or any certificate, document, writing or instrument delivered by CNSR pursuant to this Agreement or the contemplated transactions, (ii) any breach of any covenant or obligation of CNSR in or pursuant to this Agreement or in any certificate, document, writing or instrument delivered by CNSR pursuant to this Agreement or the contemplated transactions, or (iii) CNSR's ownership and operation of the Company on or after the Closing Date (except for liabilities related to the operation of the Company prior to the Closing Date). Notwithstanding any provision to the contrary contained in this Agreement, CNSR shall be under no liability to indemnify Dr. Hoffman under this SECTION 7.2(B) and no claim under this SECTION 7.2(B) shall be made unless notice thereof shall have been given by or on behalf of Dr. Hoffman to CNSR pursuant to SECTION 7.2(D) below, unless failure to provide such notice in a timely manner does not materially impair CNSR's ability to defend its rights, mitigate damages, seek indemnification from a third party or otherwise protect its interests.

(c) DEFENSE OF THIRD-PARTY CLAIMS. If any Action or Proceeding is filed or initiated against any Party entitled to the benefit of indemnity hereunder, written notice thereof shall be given to the indemnifying Party as promptly as practicable (and in any event within ten (10) days after the service of the citation or summons); PROVIDED, HOWEVER, that the failure of any indemnified Party to give timely notice shall not affect rights to

indemnification hereunder except to the extent that the indemnifying Party demonstrates actual damage caused by such failure. After such notice, if the indemnifying Party shall acknowledge in writing to the indemnified Party that the indemnifying Party shall be obligated under the terms of its indemnity hereunder in connection with such Action or Proceeding, then the indemnifying Party shall be entitled, if it so elects, to take control of the defense and investigation of such Action or Proceeding and to employ and engage attorneys of its own choice to handle and defend the same, such attorneys to be reasonably satisfactory to the indemnified Party, at the indemnifying Party's cost, risk and expense (unless (i) the indemnifying Party has failed to assume the defense of such Action or Proceeding or (ii) the named parties to such Action or Proceeding include both of the indemnifying Party and the indemnified Party, and the indemnified Party and its counsel determine in good faith that there may be one or more legal defenses available to such indemnified Party that are different from or additional to those available to the indemnifying Party and that joint representation would be inappropriate), and to compromise or settle such Action or Proceeding, which compromise or settlement shall be made only with the written consent of the indemnified Party, such consent not to be unreasonably withheld. The indemnified Party may withhold such consent if such compromise or settlement would adversely affect the conduct of business or requires less than an unconditional release to be obtained. If (i) the indemnifying Party fails to assume the defense of such Action or Proceeding within fifteen (15) days after receipt of notice thereof pursuant to this SECTION 7.2, or (ii) the named parties to such Action or Proceeding include both the indemnifying Party and the indemnified Party and the indemnified Party and its counsel determine in good faith that there may be one or more legal defenses available to such indemnified Party that are different from or additional to those available to the indemnifying Party and that joint representation would be inappropriate, the indemnified Party against which such Action or Proceeding has been filed or initiated will (upon delivering notice to such effect to the indemnifying Party) have the right to undertake, at the indemnifying Party's cost and expense, the defense, compromise or settlement of such Action or Proceeding on behalf of and for the account and risk of the indemnifying Party; PROVIDED, HOWEVER, that such Action or Proceeding shall not be compromised or settled without the written consent of the indemnifying Party, which consent shall not be unreasonably withheld. If the indemnified Party assumes defense of the Action or Proceeding, the indemnified Party will keep the indemnifying Party reasonably informed of the progress of any such defense, compromise or settlement and will consult with, when appropriate, and consider any reasonable advice from, the indemnifying Party of any such defense, compromise or settlement. The indemnifying Party shall be liable for any settlement of any action effected pursuant to and in accordance with this SECTION 7.2 and for any final judgment (subject to any right of appeal), and the indemnifying Party shall indemnify and hold harmless the indemnified Party from and against any Damages by reason of such settlement or judgment.

Regardless of whether the indemnifying Party or the indemnified Party takes up the defense, the indemnifying Party will pay reasonable costs and expenses in connection with the defense, compromise or settlement for any Action or Proceeding under this SECTION 7.2.

The indemnified Party shall cooperate in all reasonable respects with the indemnifying Party and such attorneys in the investigation, trial and defense of such Action or Proceeding and any appeal arising therefrom; PROVIDED, HOWEVER, that the indemnified Party may, at its own cost, participate in the investigation, trial and defense of such Action or Proceeding and any appeal arising therefrom. The indemnifying Party shall pay all expenses due

under this SECTION 7.2 as such expenses become due. If such expenses are not so paid, the indemnified Party shall be entitled to settle any Action or Proceeding under this SECTION 7.2 without the consent of the indemnifying Party and without waiving any rights the indemnified Party may have against the indemnifying Party. If necessary, the Parties will cooperate and provide each other reasonable access to records in accordance with applicable laws.

(d) OTHER CLAIMS. Except as provided in SECTION 7.2(C) above, to seek indemnification under this Article VII, an indemnified Party shall give written notification (a "Claim Notice") to the indemnifying Party that contains (i) a description and the amount of any Damages incurred or reasonably expected to be incurred by the indemnified Party (the "Claimed Amount"), (ii) a statement that the indemnified Party is entitled to indemnification under this Article VII for such Damages and a reasonable explanation of the basis therefor, and (iii) a demand for payment (in the manner described below) in the amount of such Damages.

Within ten (10) calendar days after delivery of a Claim Notice, the indemnifying Party shall deliver to the indemnified Party a written response (the "Response") in which the Indemnifying Party shall: (i) agree that the indemnified Party is entitled to receive all of the Claimed Amount (in which

case the Response shall be accompanied by a payment by the indemnifying Party to the indemnified Party of the Claimed Amount, by check or by wire transfer; provided that if the indemnified Party is CNSR, the indemnified Party will exercise the offset described in SECTION 7.3 below as the first recourse, (ii) agree that the indemnified Party is entitled to receive part, but not all, of the Claimed Amount (the "Agreed Amount") (in which case the Response shall be accompanied by a payment by the indemnifying Party to the indemnified Party of the Agreed Amount, by check or by wire transfer; provided that if the Indemnified Party is CNSR, the indemnified Party will exercise the offset described in SECTION 7.3 below as the first recourse, or (iii) dispute that the indemnified Party is entitled to receive any of the Claimed Amount. If the indemnifying Party in the Response disputes its liability for all or part of the Claimed Amount, the indemnifying Party and the indemnified Party shall follow the procedures set forth in below for the resolution of such dispute (a "Dispute").

During the fifteen (15)-day period following the delivery of a Response that reflects a Dispute, the indemnifying Party and the indemnified Party shall use good faith efforts to resolve the Dispute. If the Dispute is not resolved within such fifteen (15)-day period, the indemnifying Party and the indemnified Party shall submit the Dispute to arbitration pursuant to the terms set forth on SCHEDULE 7.2(D) attached hereto.

(e) TAX INDEMNITY. Notwithstanding anything in this Agreement to the contrary, if any member of the CNSR Parties incurs Damages arising resulting from a breach of the representations or warranties set forth in Section 3.22 herein, (collectively, "Tax Losses"), CNSR shall have the right to control any audit or determination by any taxing authority, initiate any claim for refund or amended return, contest, defend against, resolve, and settle any assessment, notice of deficiency or other adjustment or proposed adjustment of Taxes or otherwise resolve any issue pertaining to any Tax Losses; provided, however, that CNSR will not settle any such claim that would result in an indemnity obligation on Dr. Hoffman without Dr. Hoffman' prior written consent, which consent shall not be unreasonably withheld.

7.3 OFFSET.

(a) In addition to any other rights and remedies available to CNSR herein, CNSR shall have the right to offset any amounts to which it may be entitled under SECTION 7.2 above against amounts otherwise payable under Schedule 2.2 (the "Offset Amount"). If CNSR elects to offset any Offset Amount against the amounts otherwise payable under Schedule 2.2, CNSR shall promptly notify Dr. Hoffman in writing (the "Offset Notice") by certified mail (return receipt requested) or by a nationally recognized overnight courier service (e.g., Federal Express) of the amount, nature and basis of the offset. If Dr. Hoffman dispute CNSR' offset, Dr. Hoffman shall notify CNSR of such dispute in writing (the "Offset Dispute Notice") by certified mail (return receipt requested) or a nationally recognized overnight courier service within ten (10) days of CNSR's mailing of the Offset Notice. If no Offset Dispute Notice is given within such ten (10) day period, CNSR' offset described in the Offset Notice shall be deemed agreed upon between the Parties and the Offset Amount shall be subtracted from the outstanding principal balance of the amounts otherwise payable under Schedule 2.2, as determined at the sole discretion of CNSR, at such time. If an Offset Dispute Notice is timely delivered to CNSR, CNSR and Dr. Hoffman shall use their commercially reasonable efforts to resolve such dispute among themselves. If a dispute occurs, (i) the Offset Amount to be offset against the amounts otherwise payable under Schedule 2.2 shall not be released to Dr. Hoffman, but shall be held by CNSR until such dispute is resolved.

(b) In addition to any other rights and remedies available to Dr. Hoffman herein, Dr. Hoffman shall have the right to offset any amounts to which he may be entitled under SECTION 7.2 above against amounts otherwise payable under this Agreement ("Hoffman Amount"). If Dr. Hoffman elects to offset any Hoffman Amount against the amounts otherwise payable under this Agreement by him, Dr. Hoffman shall promptly notify CNSR in writing (the "Hoffman Notice") by certified mail (return receipt requested) or by a nationally recognized overnight courier service (E.G., Federal Express) of the amount, nature and basis of the offset. If CNSR disputes Dr. Hoffman's offset, CNSR shall notify Dr. Hoffman of such dispute in writing (the "Hoffman Dispute Notice") by certified mail (return receipt requested) or a nationally recognized overnight courier service within ten (10) days of Dr. Hoffman's mailing of the Hoffman Notice. If no Hoffman Dispute Notice is given within such ten (10) day period, Dr. Hoffman's offset described in the Hoffman Notice shall be deemed agreed upon between the Parties and the Hoffman Amount shall be subtracted from the outstanding principal balance of the amounts otherwise payable under this Agreement by Dr. Hoffman, as determined at the sole discretion of Dr. Hoffman, at such time. If a Hoffman Dispute Notice is timely delivered to Dr. Hoffman, CNSR and Dr. Hoffman shall use their commercially reasonable efforts to resolve such dispute among themselves. If a dispute occurs, (i) the Hoffman Amount to be offset against the amounts otherwise payable under this Agreement by Dr. Hoffman

shall not be released to CNSR, but shall be held by Dr. Hoffman until such dispute is resolved.

(c) The exercise of an offset by CNSR pursuant to SECTION 7.3(A) above, whether or not ultimately determined to be justified, will not constitute a breach under this Agreement with respect to payments under Schedule 2.2. Neither the exercise of nor the failure to exercise such right of offset will constitute an election of remedies or limit CNSR in any manner in the enforcement of any other remedies that may be available to it.

(d) The exercise of an offset by Dr. Hoffman pursuant to SECTION 7.3(B) above, whether or not ultimately determined to be justified, will not constitute a breach under this Agreement with respect to payments owed by

Dr. Hoffman under this Agreement. Neither the exercise of nor the failure to exercise such right of offset will constitute an election of remedies or limit Dr. Hoffman in any manner in the enforcement of any other remedies that may be available to him.

7.4 LIMITATIONS ON INDEMNIFICATION.

(a) THRESHOLD AMOUNT. Except as otherwise provided in Section 7.4(c) below, Dr. Hoffman will have no liability to any member of the CNSR Parties pursuant to its indemnification obligations under SECTION 7.2(A) above, and CNSR shall have no liability to Dr. Hoffman pursuant its indemnification obligation under SECTION 7.2(B) above, for Damages payable pursuant to their respective indemnification obligations until the total of all such Damages incurred by the indemnified Party exceed Fifteen Thousand Dollars ($15,000) in the aggregate (the "Threshold Amount"), and then indemnification by the indemnifying Party shall apply to all such Damages including the Threshold Amount.

(b) FRAUD AND OTHER EXCEPTIONS. The limitation on Dr. Hoffman' and CNSR's indemnification obligation in this SECTION 7.4 shall not apply to (i) any fraud or intentional breach by Dr. Hoffman, the Company, or CNSR, as the case may be, of any representation, warranty, covenant or agreement or obligation of such Party hereunder, (ii) any Actions or Proceedings set forth in Section 3.15 the Company Disclosure Schedule, (iii) payment obligations related to the Excluded Liabilities, (iv) payment of the Purchase Price, (v) any claims from federal or state agencies for reimbursement for overpayment for services provided by the Company during the period prior to the Closing Date, (vi) breach of the Company's representations and warranties set forth in SECTION 3.22 above or (vii) Dr. Hoffman' obligations under SECTION 7.5 below.

(c) NO RIGHT OF CONTRIBUTION. Dr. Hoffman shall not have any right of contribution against the Company with respect to any breach by the Company of any of its representations, warranties, covenants or agreements.

(d) OFFSET OF TAX BENEFIT AND INSURANCE PROCEEDS AND PAYMENT OF INDEMNIFICATION Obligation. The amount of Damages that the indemnifying Party is obligated to pay the indemnified Party shall be reduced by (i) any Tax benefit actually realized by the indemnified Party as a result of such indemnification claim and (ii) any insurance proceeds actually received by the indemnified Party as a result of such indemnification claim (collectively, the "Tax and Insurance Benefits"). The indemnifying Party shall pay the indemnification obligation without regard to the Tax and Insurance Benefits. The indemnified Party shall reimburse the indemnifying Party for the amount of any Tax and Insurance Benefits, if any, within ten (10) Business Days after the indemnified Party receives such Tax and Insurance Benefits.

(e) CONSEQUENTIAL LOSS. Except with regard to compensation for claims paid to third parties (other than third parties who are affiliates of the indemnified Party), no indemnifying Party shall have any liability to an indemnified Party for any punitive damages, indirect, incidental or consequential loss or damages including, without limitation, loss of revenue or loss of profits.

7.5 POST-CLOSING OBLIGATIONS OF DR. HOFFMAN.

(a) TAX OBLIGATIONS. Dr. Hoffman shall (i) file all Tax Returns for the taxable period ending on and including the Closing Date on a timely basis and shall deliver copies of such Tax Returns to CNSR for CNSR's review no less than ten (10) days prior to such filing, (ii) have the sole obligation to pay all Tax obligations of the Company for the taxable period ending on and including the Closing Date and all Tax obligations of Dr. Hoffman arising from the transactions contemplated in this Agreement.

(b) TERMINATION OF THE PLANS AND OTHER ERISA RELATED EXPENSE. Dr. Hoffman shall have the obligation to pay all costs associated with the termination or modification of the Company's Plans and any other benefit or ERISA related plans.

(c) BANK ACCOUNTS. Within a reasonable time after the Closing, Dr. Hoffman shall cooperate with CNSR to ensure all individuals who are authorized to have any access to the bank accounts set forth in Section 3.29 of the Company Disclosure Schedule shall be removed from having any access to such bank accounts and replaced with individuals designated by CNSR.

7.6 POST-CLOSING OBLIGATIONS OF CNSR. CNSR shall cooperate with the Company and Dr. Hoffman to consummate all the transactions contemplated herein and to permit the Company and Dr. Hoffman to fulfill their obligations hereunder.

7.7 KNOWN EXCLUDED LIABILITIES. Within ninety (90) days after the Closing Date, CNSR will deliver a schedule to Dr. Hoffman listing the Excluded Liabilities for which CNSR or the Company has received a request for payment or a similar request for satisfaction of an Excluded Liability ("Known Excluded Liability"). The Known Excluded Liabilities will be prorated pursuant to Section 8.13 within thirty (30) days after the Closing. If Dr. Hoffman has not remitted to CNSR the necessary amount to satisfy such Known Excluded Liability within (10) days after receipt of such listing from CNSR, then such listing shall be deemed accepted and CNSR's first recourse is to offset the amount of the Known Excluded Liability pursuant to Section 7.6(B) above and then pursue indemnification pursuant to SECTION 7.2 above. If Dr. Hoffman disputes the Known Excluded Liability, Dr. Hoffman shall provide CNSR with a written notice notifying CNSR's of their dispute in reasonable detail. If such a dispute occurs, CNSR and Dr. Hoffman shall use best efforts to resolve the dispute within fifteen (15) days, and if no resolution has been reached, then the Parties will resolve the matter pursuant to the arbitration procedure set forth on SCHEDULE 8.2(D) attached hereto.

7.8 REPURCHASE OPTION.

(a) At any time within three years of the Closing, Dr. Hoffman may acquire the Assumed Assets and Assumed Liabilities for a purchase price of 50% of annualized the Company's practice revenue over $1 million ("Repurchase Price") if (i) CNSR defaults under the amounts otherwise payable under Schedule 2.2 , (ii) Dr. Hoffman is terminated under the Employment Agreement without "cause," as defined below (iii) Dr. Hoffman terminates the Employment Agreement for "good reason," as defined below, (iv) there is an acquisition of substantially all the assets of CNS Response, Inc., or (v) Len Brandt is no

longer either the Chairman of the Board or the CEO of CNS Response, Inc. The Repurchase Price would be payable over five years pursuant to a personal guaranty from Dr. Hoffman. For the purposes of this Section, "cause" means any (a) indictment or conviction of any felony or any crime involving dishonesty or moral turpitude, (b) participation in any fraud against CNSR or its subsidiaries or affiliates, (c) persistent failure to substantially perform material job duties, provided Dr. Hoffman is provided with written notice of such failure and fifteen (15) days to cure, and (d) intentional damages to any property of CNSR or its subsidiaries or affiliates. For the purposes of this Section, "good reason" means any non-payment of compensation or breach of any material obligation of CNS Response, Inc. under the Employment Agreement where such breach is not cured within fourteen (14) days after receiving such notice from Dr. Hoffman.

(b) At any time within three years of the Closing, Dr. Hoffman would have first refusal rights to reacquire the Assumed Assets and Assumed Liabilities if there is a dissolution of CNS Response, Inc. or a sale of substantially all the Assumed Assets and Assumed Liabilities. The repurchase price and terms would be as mutually agreed by CNSR and Dr. Hoffman. Dr. Hoffman would have no first refusal or reacquisition rights upon his termination by CNS Response, Inc. for "cause" as defined above in subparagraph (a).

(c) At any time after three years from the Closing, Dr. Hoffman would have first refusal rights to reacquire the Assumed Assets and Assumed Liabilities if (i) CNS Response, Inc. terminates Dr. Hoffman's Employment Agreement without "cause," as defined above in subparagraph (a); (ii) Dr. Hoffman terminates the Employment Agreement for "good reason," as defined above in subparagraph (a); (iii) there is a dissolution of CNS Response, Inc., or (iv) there is a sale of substantially all the Assumed Assets and Assumed Liabilities. Dr. Hoffman would have no first refusal or reacquisition rights upon termination of the Employment Agreement by CNS Response, Inc. for cause, as defined above in subparagraph (a), or the acquisition of all or part of CNS Response, Inc.

7.9 FURTHER ASSURANCES. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this

Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as the other Party reasonably may request, all the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under this ARTICLE VIII).

7.10 HIPAA REQUIREMENTS. Each party shall comply with the Health Insurance Portability and Accountability Act of 1996, as codified at 42 U.S.C. ss. 1320d ("HIPAA") and any current and future regulations promulgated thereunder including without limitation the federal privacy regulations as contained in 45 C.F.R. Part 164 (the "Federal Privacy Regulations"), the federal security standards as contained in 45 C.F.R. Part 142 (the "Federal Security Regulations"), and the federal standards for electronic transactions contained in 45 C.F.R. Parts 160 and 162, all collectively referred to herein as "HIPAA Requirements." Each party shall not use or further disclose any Protected Health Information, as defined in 45 C.F.R. ss. 164.504, or Individually Identifiable Health Information, as defined in 42 U.S.C. ss. 1320d, other than as permitted by HIPAA Requirements and the terms of this Agreement. Each party shall makes its internal practices, books and records relating to the use and disclosure of Protected Health Information available to the Secretary of Health and Human Services to the extent required for determining compliance with the Federal Privacy Regulations. The parties hereto intend this provision to constitute a Business Associate Agreement between them, as specified in the HIPAA Requirements.

ARTICLE VIII
MISCELLANEOUS

8.1 TERMINATION. This Agreement may be terminated at any time prior to Closing:

(a) by mutual consent of the Parties;

(b) by the Company and Dr. Hoffman if (i) any condition precedent to the Company's and Dr. Hoffman' obligations hereunder is not satisfied and such condition is not waived by the Company and Dr. Hoffman at or prior to the Closing Date or (ii) there has been a material violation or breach by CNSR of any covenant, agreement, representation or warranty contained in this Agreement and such violation or breach has not been waived in writing by the Company and Dr. Hoffman;

(c) by CNSR if (i) any condition precedent to CNSR's obligations hereunder is not satisfied and such condition is not waived by CNSR at or prior to the Closing Date or (ii) there has been a material violation or breach by the Company or Dr. Hoffman of any covenant, agreement, representation or warranty contained in this Agreement and such violation or breach has not been waived in writing by CNSR; or

(d) EFFECT OF TERMINATION. If any Party terminates this Agreement pursuant to SECTIONS 8.1(A) - (C) above, all obligations of the Parties hereunder shall terminate without any liability of any party hereunder.

8.2 NOTICES. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission with answer back confirmation or mailed (postage prepaid by certified or registered mail, return receipt requested) or by overnight courier to the Parties at the following addresses or facsimile numbers:

IF TO DR. HOFFMAN, TO:

5885 South Goldsmith Drive
Greenwood Village, Colorado 80111
Tel: 303-741-5885
Email: daniel@hoffmanemail.com

WITH COPIES TO:

Gregory James Smith, Esquire
Burns, Wall, Smith and Mueller, P.C.
303 East Seventeenth Avenue, Suite 800
Denver, Colorado 80203-1299 USA
Telephone: (303) 830-7000
Toll-free: (888) 830-0700
Facsimile: (303) 830-6708
Email: gsmith@bwsm.com

IF TO NTC, TO:

Neuro-Therapy Clinic, P.C.,
7800 E. Orchard Rd., Suite #340
Greenwood Village, CO 80111
Tel: 303-741-4800
Attention: Daniel A. Hoffman, M.D.

IF TO CNSR, TO:

CNSR, Inc.
2755 Bristol Street
Costa Mesa, CA 92626
Tel: (714) 545-3225
email: lbrandt@cnsresponse.com
-
Attention: Leonard Brandt

WITH COPIES TO:

Hooper, Lundy & Bookman
575 Market Street, Suite 2300
San Francisco, CA 94105
Facsimile: (415) 875-8508
Attention: Stephen Phillips, Esq.

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this SECTION 8.2, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this SECTION 8.2, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this SECTION 8.2, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any Party from time to time may change its address, facsimile number or other information for the purpose of notices to that Party by giving notice specifying such change to the other Parties.

8.3 ENTIRE AGREEMENT. This Agreement, all exhibits and schedules attached hereto and all other documents delivered in connection herewith supersedes all prior discussions and agreements among the Parties with respect to the subject matter hereof and contains the sole and entire agreement among the Parties with respect thereto.

8.4 WAIVER. Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. No waiver by any Party hereto of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

8.5 AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each Party.

8.6 NO THIRD PARTY BENEFICIARY. The terms and provisions of this Agreement are intended solely for the benefit of each Party and their respective successors or permitted assigns, and it is not the intention of the Parties to confer third-party beneficiary rights upon any other Person other than any Person entitled to indemnity under ARTICLE VIII.

8.7 NO ASSIGNMENT; BINDING EFFECT. Neither this Agreement nor any obligation hereunder may be assigned by a Party without the other Parties' prior written consent and any attempt to do so will be void; provided, however, that CNSR may assign any right or interest, but not any obligation hereunder to any affiliate or subsidiary without any prior consent from the other Parties. This Agreement is binding upon, inures to the benefit of and is enforceable by the Parties and their respective permitted successors and assigns.

8.8 HEADINGS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

8.9 SEVERABILITY. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any Party under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully

severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (iv) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and mutually acceptable to the Parties.

8.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado applicable to contracts executed and performed in such State, without giving effect to conflicts of laws principles.

8.11 CONSENT TO JURISDICTION AND FORUM SELECTION. All actions or proceedings arising in connection with this Agreement shall be initiated and tried exclusively in the State and Federal courts located in Orange County, California. The aforementioned choice of venue is intended by the Parties to be mandatory and not permissive in nature, thereby precluding the possibility of litigation between the Parties with respect to or arising out of this Agreement in any jurisdiction other than that specified in this SECTION 8.11. Each Party

hereby waives any right it may have to assert the doctrine of forum non conveniens or similar doctrine or to object to venue with respect to any proceeding brought in accordance with this paragraph, and stipulates that the State and Federal courts located in the Orange County, California shall have in personam jurisdiction and venue over each of them for the purposes of litigating any dispute, controversy or proceeding arising out of or related to this Agreement. Each Party hereby authorizes and accepts service of process sufficient for personal jurisdiction in any action against it as contemplated by this SECTION 8.11 by registered or certified mail, return receipt requested, postage prepaid, to its address for the giving of notices as set forth in this Agreement, or in the manner set forth in SECTION 8.2 of this Agreement for the giving of notice. Any final judgment rendered against a Party in any action or proceeding shall be conclusive as to the subject of such final judgment and may be enforced in other jurisdictions in any manner provided by law.

8.12 EXPENSE. The Company and CNSR shall pay their own expenses and costs incidental to the preparation of this Agreement and to the consummation of the transactions contemplated hereby. CNSR shall reimburse Dr. Hoffman for his expenses and costs incidental to the preparation of this Agreement and to the consummation of the transactions contemplated hereby.

8.13 PRO-RATIONS. All expenses (including but not limited to utilities, record storage payments, insurance payments, software license payments and vendor payments) relating to the Company will be allocated to Dr. Hoffman, to the extent such items relate to any time period prior to the Closing Date, and will be allocated to CNSR, to the extent such items relate to any time period from and after the Closing Date. Within thirty (30) days after the Closing Date, CNSR shall pay to Dr. Hoffman the amount of such expenses paid by Company prior to the Closing Date and allocable to any time period from and after the Closing Date.

8.14 CONSTRUCTION. No provision of this Agreement shall be construed in favor of or against any Party on the ground that such Party or its counsel drafted the provision. Any remedies provided for herein are not exclusive of any other lawful remedies which may be available to either Party. This Agreement shall at all times be construed so as to carry out the purposes stated herein.

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

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK - SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the Parties, or their duly authorized officer, as of the date first above written.

COLORADO CNS RESPONSE, INC.
a Colorado corporation

By:

NEURO-THERAPY CLINIC, P.C.
a Colorado corporation

By:

Daniel A. Hoffman, M.D., President and CEO

DANIEL A. HOFFMAN:

EXHIBIT 21.1

CNS Response, Inc., a California corporation and Colorado CNS Response, Inc., a Colorado corporation, are wholly-owned subsidiaries of CNS Response, Inc., a Delaware corporation.

Neuro-Therapy Clinic, P.C., a Colorado professional medical corporation, is a wholly-owned subsidiary of Colorado CNS Response, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CNS Response, Inc.

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-150398) of our report, dated January 13, 2009, relating to our audits of the consolidated financial statements which appear in this Annual Report on Form 10-K of CNS Response, Inc. for the year ended September 30, 2008.

/s/ Cacciamatta Accountancy Corporation
- ----------
Cacciamatta Accountancy Corporation

Irvine, California
January 13, 2009

EXHIBIT 31.1

CERTIFICATION OF CEO PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Leonard J. Brandt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: January 13, 2009

/S/ LEONARD BRANDT

Leonard J. Brandt
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Leonard J. Brandt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: January 13, 2009

/S/ LEONARD BRANDT

Leonard J. Brandt
Principal Financial Officer

EXHIBIT 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K for the year ended September 30, 2008 (the "Report") by CNS Response, Inc. (the "Registrant"), the undersigned hereby certifies that:

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

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

Date: January 13, 2009

/S/ LEONARD BRANDT

Leonard J. Brandt
Chief Executive Officer (Principal Executive and Financial Officer)

FIGURE 1

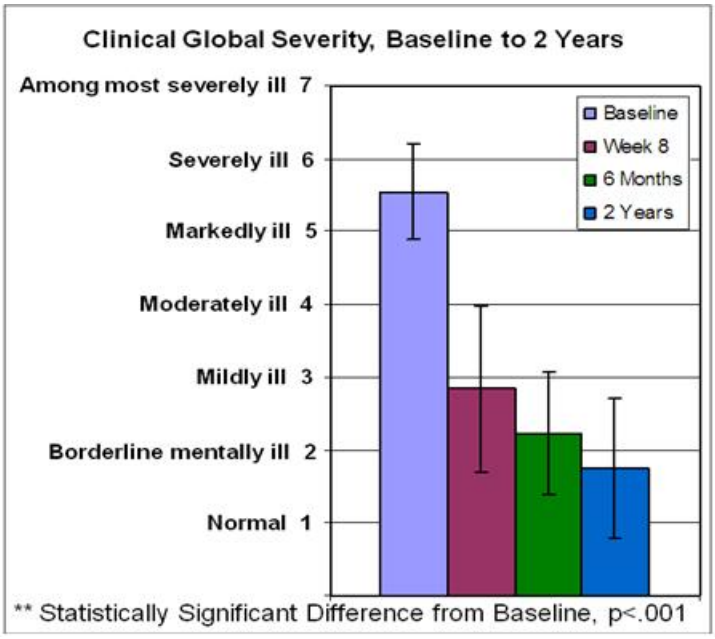


FIGURE 2

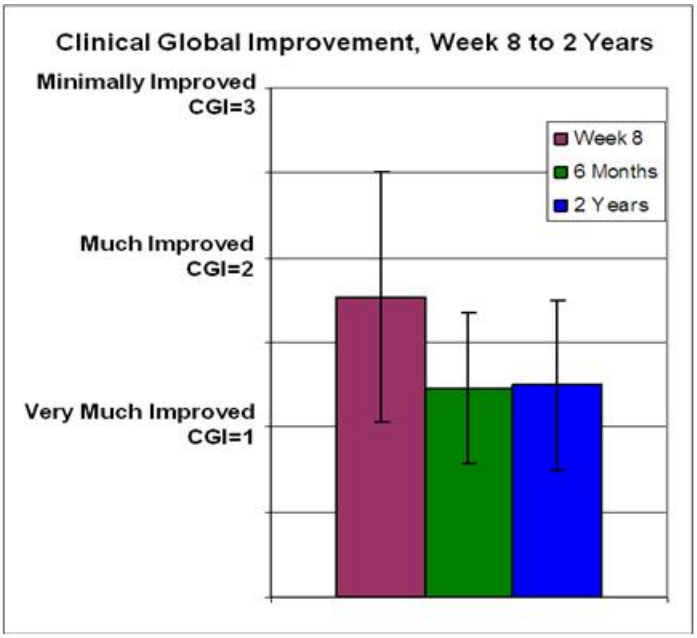


FIGURE 3

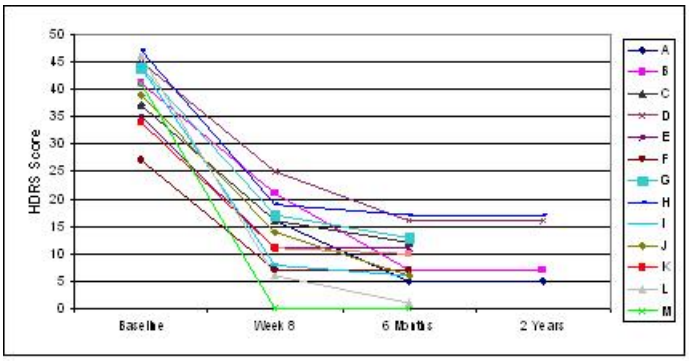


FIGURE 4

FIGURE 5

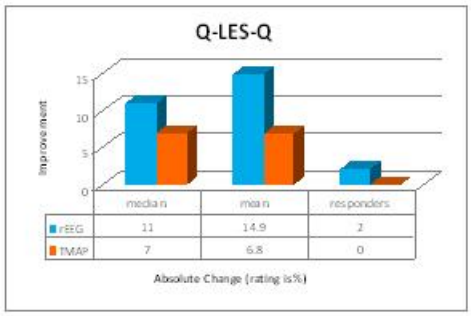
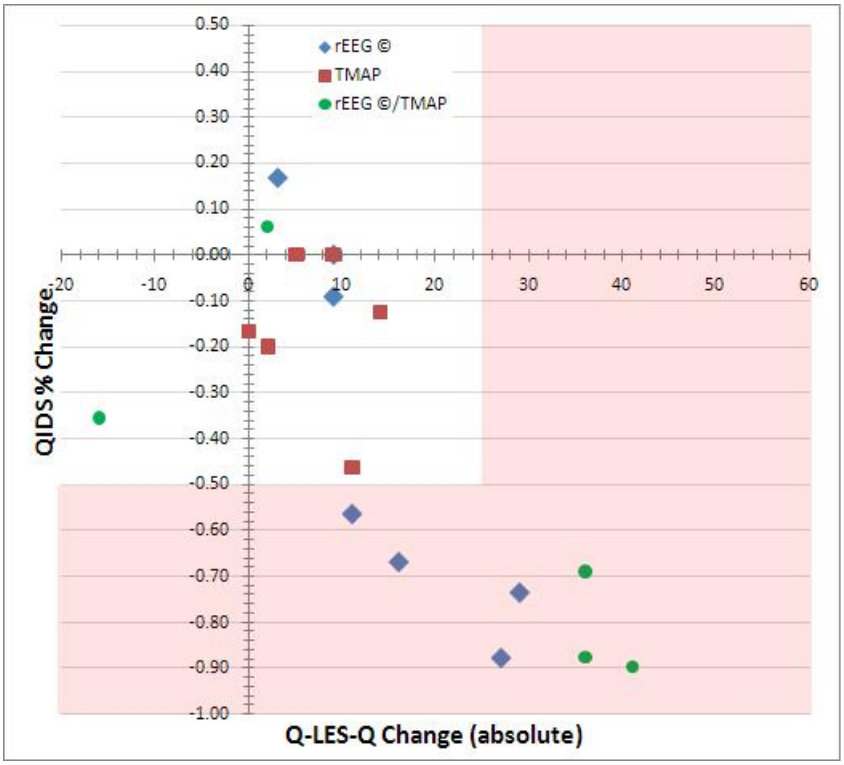


FIGURE 6


rEEG ©
TMAP
rEEG ©/TMAP
0.50
0.40
0.30
0.20
0.10
0.00
-0.10
-0.20
-0.30
-0.40
-0.50
-0.60
-0.70
-0.80
-0.90
-1.00
-20
-10
0
10
20
30
40
50
60
QIDS % Change
Q-LES-Q Change (absolute)