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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2013**

Commission File Number **001-31932**

CATASYS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**88-0464853**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11150 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025
(Address of principal executive offices, including zip code)

(310) 444-4300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes☑ No☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes☑ No☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes☐ No☑

As of November 13, 2013, there were 18,835,571 shares of registrant's common stock, $0.0001 par value, outstanding.

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In this report, except as otherwise stated or the context otherwise requires, the terms “we,” “us” or “our” refer to Catasys, Inc. and our wholly-owned subsidiaries. Our common stock, par value $0.0001 per share, is referred to as “common stock.”

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CATASYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except for number of shares)	(unaudited) September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 422	$ 3,153
Receivables, net of allowance for doubtful accounts of $9 and $0, respectively	113	69
Receivables from related party	269	173
Prepaids and other current assets	119	227
Total current assets	923	3,622
Long-term assets		
Property and equipment, net of accumulated depreciation of $4,501 and $4,668, respectively	44	59
Intangible assets, net of accumulated amortization of $995 and $892, respectively	945	1,048
Deposits and other assets	175	205
Total Assets	$ 2,087	$ 4,934
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 1,268	$ 1,642
Accrued compensation and benefits	1,217	958
Deferred revenue	667	278
Other accrued liabilities	1,314	1,120
Total current liabilities	4,466	3,998
Long-term liabilities		
Deferred rent and other long-term liabilities	-	18
Capital leases	18	18
Warrant liabilities	14,196	14,658
Total Liabilities	18,680	18,692
Stockholders' deficit		
Preferred stock, $0.0001 par value; 50,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $0.0001 par value; 500,000,000 shares authorized; 14,285,569 and 12,022,853 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	2	1
Additional paid-in-capital	209,121	208,776
Accumulated deficit	(225,716)	(222,535)
Total Stockholders' deficit	(16,593)	(13,758)
Total Liabilities and Stockholders' Deficit	$ 2,087	$ 4,934

* The financial statements have been retroactively restated to reflect the 10-for-1 reverse stock split that occurred on May 6, 2013.

See accompanying notes to the financial statements.

CATASYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Healthcare services revenues	$ 109	$ 100	$ 315	$ 226
License and management services revenues	21	40	83	136
Total revenues	130	140	398	362
Operating expenses				
Cost of services	221	197	628	618
General and administrative	1,415	1,946	4,651	6,629
Impairment losses	-	-	-	189
Depreciation and amortization	42	69	131	227
Total operating expenses	1,678	2,212	5,410	7,663
Loss from operations	(1,548)	(2,072)	(5,012)	(7,301)
Interest and other income	-	-	-	-
Interest expense	(1)	(1)	(771)	(2,697)
Change in fair value of warrant liability	2,231	1,818	2,607	4,127
Income/(Loss) from operations before provision for income taxes	682	(255)	(3,176)	(5,871)
Provision for income taxes	2	2	5	18
Net Income/(Loss)	$ 680	$ (257)	$ (3,181)	$ (5,889)
Basic and diluted net income (loss) per share:*				
Basic net income (loss) per share*	$ 0.05	$ (0.04)	$ (0.24)	$ (1.23)
Basic weighted number of shares outstanding*	14,286	5,908	13,429	4,802
Diluted net income (loss) per share*	$ 0.04	$ (0.04)	$ (0.24)	$ (1.23)
Diluted weighted number of shares outstanding*	19,364	5,908	13,429	4,802

* The financial statements have been retroactively restated to reflect the 10-for-1 reverse stock split that occurred on May 6, 2013.

See accompanying notes to the financial statements.

CATASYS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(In thousands)	Nine Months Ended September 30, 2013	2012
Operating activities:		
Net loss	$ (3,181)	$ (5,889)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	131	227
Amortization of debt discount and issuance costs included in interest expense	769	2,681
Provision for doubtful accounts	9	(4)
Share-based compensation expense	165	1,963
Fair value adjustment on warrant liability	(2,607)	(4,127)
Impairment losses	-	189
(Gain) or loss on disposition of assets	-	(1)
Changes in current assets and liabilities:		
Receivables	(149)	(40)
Prepaids and other current assets	137	24
Deferred revenue	389	221
Accounts payable and other accrued liabilities	57	229
Net cash used in operating activities	$ (4,280)	$ (4,527)
Investing activities:		
Deposits and other assets	$ -	$ (3)
Net cash used in investing activities	$ -	$ (3)
Financing activities:		
Proceeds from the issuance of common stock and warrants	$ 1,535	$ 4,287
Proceeds from the exercise of warrants	23	-
Proceeds from financing notes	-	975
Capital lease obligations	(9)	(7)
Net cash provided by financing activities	$ 1,549	$ 5,255
Net increase (decrease) in cash and cash equivalents	$ (2,731)	$ 725
Cash and cash equivalents at beginning of period	3,153	771
Cash and cash equivalents at end of period	$ 422	$ 1,496
Supplemental disclosure of cash paid		
Income taxes	$ 37	$ 93
Supplemental disclosure of non-cash activity		
Common stock issued for converson of debt	$ -	$ 975
Common stock issued for services	$ -	$ 309
Common stock issued for exercise of warrants	$ 156	$ -
Beneficial conversion feature related to financing	$ -	$ 253
Property and equipment acquired through capital leases and other financing	$ 13	$ 31

See accompanying notes to the financial statements.

Catasys, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1. Basis of Consolidation, Presentation and Going Concern

The accompanying unaudited interim condensed consolidated financial statements for Catasys, Inc. and our subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") and instructions to Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with U.S. GAAP. In our opinion, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results that may be expected for the entire fiscal year. The accompanying financial information should be read in conjunction with the financial statements and the notes thereto in our most recent Annual Report on Form 10-K, from which the December 31, 2012 balance sheet have been derived.

Our financial statements have been prepared on the basis that we will continue as a going concern. At September 30, 2013, cash and cash equivalents amounted to $422,000 and we had a working capital deficit of approximately $3.5 million. In October 2013, we closed on a financing of approximately $2.6 million. We have incurred significant operating losses and negative cash flows from operations since our inception. During the nine months ended September 30, 2013, our cash used in operating activities amounted to $4.3 million. We anticipate that we could continue to incur negative cash flows and net losses for the next twelve months. The financial statements do not include any adjustments relating to the recoverability of the carrying amount of the recorded assets or the amount of liabilities that might result from the outcome of this uncertainty. As of September 30, 2013, these conditions raised substantial doubt as to our ability to continue as a going concern.

Our ability to fund our ongoing operations and continue as a going concern is dependent on our increasing fees from existing contracts and signing and generating fees from new and existing contracts for our Catasys managed care programs and the success of management's plans to increase revenue and continue to control expenses. We operated our programs in Kansas, Louisiana, Massachusetts, and Oklahoma during the third quarter of 2013. In 2013, we signed two agreements with national health plans to provide services to their members in New Jersey and Ohio, West Virginia, Kentucky, and Indiana, respectively. We commenced enrollment for Humana, one of the national insurers in the fourth quarter of 2013, and we expect to continue to expand enrollment with Humana and commence enrollment with the other national insurer during the fourth quarter of 2013. During the nine months ending September 30, 2013, we have generated increased fees from our launched programs over the same period in the prior year, and we expect to continue to increase enrollment and fees from our programs throughout this year both from existing programs and the contracts we signed in 2013. In addition, we are involved in contract negotiations with other potential customers that we expect to sign in the fourth quarter. However, there can be no assurance that we will generate such fees or sign additional contracts. We continue to look for areas to reduce our operating expenses.

We and our Chief Executive Officer are party to a litigation in which the plaintiffs assert causes of action for conversion, a request for an order to set aside fraudulent conveyance and breach of contract. A judgment in our favor was entered by the court in November 2012, however the plaintiff has appealed the judgment. While we believe the plaintiffs' claims are without merit and we intend to continue to vigorously defend the case, there can be no assurance that the litigation will be resolved in our favor. If this case is decided against us or our Chief Executive Officer, it may cause us to pay substantial damages, and other related fees. Regardless of whether this litigation is resolved in our favor, any lawsuit to which we are a party will likely be expensive and time consuming to defend or resolve. Costs of defense and any damages resulting from litigation, a ruling against us or a settlement of the litigation could have a significant negative impact on our liquidity, including our cash flows.

Based on the provisions of our management services agreement ("MSA") between us and our managed professional medical corporation, we have determined that our managed professional medical corporation constitutes a variable interest entity, and that we are the primary beneficiary as defined in Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" ("FIN 46R"). Accordingly, we are required to consolidate the revenue and expenses of our managed professional medical corporation. See Management Services Agreement heading under Note 2, Summary of Significant Accounting Policies, for more discussion.

All intercompany transactions and balances have been eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition

Healthcare Services

Our Catasys contracts are generally designed to provide revenues to us on a monthly basis based on enrolled members. To the extent our contracts may include a minimum performance guarantee, we reserve a portion of the monthly fees that may be at risk until the performance measurement period is completed. To the extent we receive case rates that are not subject to the performance guarantees, we recognize the case rate ratably over twelve months.

License and Management Services

Our license and management services revenues are primarily derived from our managed treatment center, which we include in our condensed consolidated financial statements, and which are derived from charging fees directly to patients for treatment and are recorded when services are provided. Revenues from patients treated with our proprietary treatment program are recorded based on the number of days of treatment completed during the period as a percentage of the total number treatment days for the treatment program. Revenues for other services are recognized when services are rendered.

Cost of Services

Healthcare Services

Cost of healthcare services consists primarily of salaries related to our care coaches, healthcare provider claims payments, and fees charged by our third party administrators for processing these claims. Healthcare services cost of services is recognized in the period in which an eligible member receives services. We contract with doctors and licensed behavioral healthcare professionals, on a fee-for-services basis. We determine that a member has received services when we receive a claim or in the absence of a claim, by utilizing member data recorded in the eOn*Trak*™ database within the contracted timeframe, with all required billing elements correctly completed by the service provider.

License and Management Services

Cost of license and management services primarily represents direct costs associated with providing care to patients that are incurred in connection with our managed treatment center. Costs are recognized in the periods in which medical treatment is provided. Such costs include, but are not limited to, direct labor costs, medical supplies and medications.

Cash Equivalents and Concentration of Credit Risk

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Financial instruments that potentially subject us to a concentration of credit risk consist of cash and cash equivalents, and accounts receivable. Cash is deposited with what we believe are highly credited, quality financial institutions. The deposited cash may exceed Federal Deposit Insurance Corporation (“FDIC”) insured limits.

For the nine months ended September 30, 2013, one customer accounted for approximately 64% of revenues and three customers accounted for approximately 91% of accounts receivable.

Basic and Diluted Income (Loss) per Share

Basic 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 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.

Common equivalent shares, consisting of 5,077,669 incremental common shares for the three months ended September 30, 2013, issuable upon the exercise of stock options and warrants have been included in the diluted earnings per share calculation. These shares have not been included for the three and nine month ended September 30, 2012 or the nine months ended September 2013 because their effect is anti-dilutive.

(in thousands, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Numerator				
Net income (loss)	$ 680	$ (257)	$ (3,181)	$ (5,889)
Denominator				
Weighted-average common shares outstanding	14,286	5,908	13,429	4,802
Shares used in calculation - basic	14,286	5,908	13,429	4,802
Shares issuable for stock options and warrants	5,078	-	-	-
Shares used in calculation - diluted	19,364	5,908	13,429	4,802
Net income (loss) per share				
Basic	$ 0.05	$ (0.04)	$ (0.24)	$ (1.23)
Diluted	$ 0.04	$ (0.04)	$ (0.24)	$ (1.23)

Share-Based Compensation

Our 2010 Stock Incentive Plan, as amended, (the "Plan"), provides for the issuance of up to 1,825,000 shares of our common stock. Incentive stock options (ISOs) under Section 422A of the Internal Revenue Code and non-qualified options (NSOs) are authorized under the Plan. We have granted stock options to executive officers, employees, members of our board of directors, and certain outside consultants. The terms and conditions upon which options become exercisable vary among grants, but option rights expire no later than ten years from the date of grant and employee and board of director awards generally vest over three to five years. At September 30, 2013, we had 482,177 vested and unvested shares outstanding and 1,285,586 shares available for future awards.

Share-based compensation expense attributable to continuing operations amounted to $48,000 and $165,000 for the three and nine months ended September 30, 2013, compared with $371,000 and $2.0 million, respectively, for the same periods in 2012.

Stock Options – Employees and Directors

We measure and recognize compensation expense for all share-based payment awards made to employees and directors based on estimated fair values on the date of grant. We estimate the fair value of share-based payment awards using the Black Scholes option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the condensed consolidated statements of operations subsequent to January 1, 2006. We account for share-based awards to employees and directors using the intrinsic value method under previous FASB rules, allowable prior to January 1, 2006. Under the intrinsic value method, no share-based compensation expense had been recognized in our consolidated statements of operations for awards to employees and directors because the exercise price of our stock options equaled the fair market value of the underlying stock at the date of grant.

Share-based compensation expense recognized for employees and directors for the three and nine months ended September 30, 2013, was $47,000 and $141,000, compared with $273,000 and $1.6 million for the same periods in 2012, respectively.

Share-based compensation expense recognized in our condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012, includes compensation expense for share-based payment awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the pro-forma provisions of Statement of Financial Accounting Standards ("SFAS") 123, and for the share-based payment awards granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with the provisions of the Accounting Standards Codification ("ASC") 718. For share-based awards issued to employees and directors, share-based compensation is attributed to expense using the straight-line single option method. Share-based compensation expense recognized in our condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012, is based on awards ultimately expected to vest, reduced for estimated forfeitures. Accounting rules for stock options require forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

During the three and nine months ended September 30, 2013, there were no options granted to employees, compared with 0 and 50,000 options granted to employees at the weighted average per share exercise price of $0.00 and $0.44, for the same periods in 2012, respectively. All of the options were issued at the fair market value of our common stock on the date of grant. Employee and director stock option activity for the three and nine months ended September 30, 2013 are as follows:

	Shares	Weighted Avg. Exercise Price
Balance December 31, 2012	486,000	$ 26.46
Granted	-	$ -
Canceled	(20,000)	$ 33.72
Balance March 31, 2013	466,000	$ 22.73
Granted	-	$ -
Canceled	(1,000)	$ 39.37
Balance June 30, 2013	465,000	$ 22.69
Granted	-	$ -
Canceled	(4,000)	$ 379.44
Balance September 30, 2013	461,000	$ 19.59

The expected volatility assumptions have been based on the historical and expected volatility of our stock, measured over a period generally commensurate with the expected term. The weighted average expected option term for the three and nine months ended September 30, 2013 and 2012, reflects the application of the simplified method prescribed in SEC Staff Accounting Bulletin ("SAB") No. 107 (and as amended by SAB 110), which defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

As of September 30, 2013, there was $92,000 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of approximately 0.94 years.

Stock Options and Warrants – Non-employees

We account for the issuance of options and warrants for services from non-employees for services by estimating the fair value of warrants issued using the Black-Scholes pricing model. This model's calculations include the option or warrant exercise price, the market price of shares on grant date, the weighted average risk-free interest rate, the expected life of the option or warrant, and the expected volatility of our stock and the expected dividends.

For options and warrants issued as compensation to non-employees for services that are fully vested and non-forfeitable at the time of issuance, the estimated value is recorded in equity and expensed when the services are performed and benefit is received. For unvested shares, the change in fair value during the period is recognized in expense using the graded vesting method.

There were no options issued to non-employees for the three and nine months ended September 30, 2013 and 2012, respectively. Share-based compensation expense relating to stock options and warrants recognized for non-employees amounted to $1,000 and $23,000 for the three and nine months ended September 30, 2013, and $61,000 and $81,000 for the three and nine months ended September 30, 2012, respectively.

Non-employee stock option activity for the three and nine months ended September 30, 2013, are as follows:

	Shares	Weighted Avg. Exercise Price
Balance December 31, 2012	22,000	$ 48.97
Canceled	(1,000)	$ 1,953.03
Balance March 31, 2013	21,000	$ 45.72
Canceled	-	$ -
Balance June 30, 2013	21,000	$ 45.72
Canceled	-	$ -
Balance September 30, 2013	21,000	$ 28.40

Common Stock

In April 2013, we entered into securities purchase agreements (the "April Agreements") with several investors, including Crede CG II, LLC ("Crede"), an affiliate of Terren S. Peizer, Chairman and Chief Executive Officer of the Company, and Shamus, LLC ("Shamus"), an affiliate of the Company, relating to the sale and issuance of an aggregate of 2,192,857 shares of common stock and warrants (the "April Warrants") to purchase an aggregate of 2,192,857 shares of common stock at an exercise price of $0.70 per share for aggregate gross proceeds of approximately $1.5 million (the "April Offering"). The April Agreements provide that in the event that we effectuate a reverse stock split of our common stock within 24 months of the closing date of the April Offering (the "Reverse Split") and the volume weighted average price ("VWAP") of the common stock during the 20 trading days following the effective date of the Reverse Split (the "VWAP Period") declines from the closing price on the trading date immediately prior to the effective date of the Reverse Split, that we shall issue additional shares of common stock (the "Adjustment Shares"). We effectuated a reverse split on May 6, 2013, and no Adjustment Shares were issued.

There were no shares of common stock issued in exchange for various services or settlement of claims during the three and nine months ended September 30, 2013, compared with 0 and 312,500 valued at $0 and $72,000, for the same period in 2012, respectively. The costs associated with shares issued for services are being amortized to share-based compensation expense on a straight-line basis over the related service periods. For the three and nine months ended September 30, 2013, share-based compensation expense relating to all common stock issued for consulting services was $1,000 and $23,000 compared with $61,000 and $81,000, for the same periods in 2012, respectively.

Income Taxes

We have recorded a full valuation allowance against our otherwise recognizable deferred tax assets as of September 30, 2013. As such, we have not recorded a provision for income tax for the period ended September 30, 2013. We utilize the liability method of accounting for income taxes as set forth in ASC 740. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. In determining the need for valuation allowances we consider projected future taxable income and the availability of tax planning strategies. After evaluating all positive and negative historical and perspective evidences, management has determined it is more likely than not that our deferred tax assets will not be realized.

We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where there is a greater than 50% likelihood that a tax benefit will be sustained, we have recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where there is less than 50% likelihood that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Based on management's assessment of the facts, circumstances and information available, management has determined that all of the tax benefits for the period ended September 30, 2013 should be realized.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure fair value. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). The three levels of the fair value hierarchy are described below:

Level Input:	Input Definition:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes fair value measurements by level at September 30, 2013 for assets and liabilities measured at fair value:

	2013			
(in thousands)	**Level I**	**Level II**	**Level III**	**Total**
Certificates of deposit	$ 175	$ -	$ -	$ 175
Total assets	$ 175	$ -	$ -	$ 175
Warrant liabilities	$ -	$ -	$ 14,196	$ 14,196
Total liabilities	$ -	$ -	$ 14,196	$ 14,196

Financial instruments classified as Level III in the fair value hierarchy as of September 30, 2013, represent our liabilities measured at market value on a recurring basis which include warrant liabilities resulting from recent debt and equity financings. In accordance with current accounting rules, the warrant liabilities are being marked-to-market each quarter-end until they are completely settled. The warrants are valued using the Black-Scholes option-pricing model, using both observable and unobservable inputs and assumptions consistent with those used in our estimate of fair value of employee stock options. See *Warrant Liabilities* below.

The following table summarizes our fair value measurements using significant Level III inputs, and changes therein, for the three and nine months ended September 30, 2013:

(Dollars in thousands)	**Level III Warrant Liabilities**
Balance as of December 31, 2012	$ 14,658
Reclassification to equity	(129)
Change in fair value	(4,360)
Net realized gains (losses)	-
Balance as of March 31, 2013	$ 10,169
Reclassification to equity	(27)
Change in fair value	3,985
Net purchases (sales)	2,301
Net realized gains (losses)	-
Balance as of June 30, 2013	$ 16,428
Reclassification to equity	-
Change in fair value	(2,232)
Net purchases (sales)	-
Net unrealized gains (losses)	-
Balance as of September 30, 2013	$ 14,196

Intangible Assets

As of September 30, 2013, the gross and net carrying amounts of intangible assets that are subject to amortization are as follows:

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Balance	Amortization Period (in years)
Intellectual property	$ 1,940	$ (995)	$ 945	8

During the three and nine months ended September 30, 2013, we did not acquire any new intangible assets and at September 30, 2013, all of our intangible assets consisted of intellectual property, which is not subject to renewal or extension. We had no intangible impairment for the three and nine months ended September 30, 2013. We had no intangible impairment for the three months ended September 30, 2012 and $189,000 for the nine months ended September 30, 2012.

Additionally, it is important to note that our overall business model, business operations and future prospects of our business have not changed materially since we performed the reviews and analysis noted above, with the exception of the timing, and annualized amounts of expected revenue.

Estimated remaining amortization expense for intangible assets for the current year and each of the next five years ending December 31 is as follows:

(In thousands) Year	Amount
2013 (3 months)	$ 33
2014	$ 132
2015	$ 132
2016	$ 132
2017	$ 132

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Additions and improvements to property and equipment are capitalized at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from two to seven years for furniture and equipment. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease term, which is typically five to seven years.

Variable Interest Entities

Generally, an entity is defined as a Variable Interest Entity ("VIE") under current accounting rules if it has (a) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (b) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. When determining whether an entity that is a business qualifies as a VIE, we also consider whether (i) we participated significantly in the design of the entity, (ii) we provided more than half of the total financial support to the entity, and (iii) substantially all of the activities of the VIE either involve us or are conducted on our behalf. A VIE is consolidated by its primary beneficiary, which is the party that absorbs or receives a majority of the entity's expected losses or expected residual returns.

As discussed under the heading *Management Services Agreement* below, we have an MSA with a managed medical corporation. Under this MSA, the equity owner of the affiliated medical group has only a nominal equity investment at risk, and we absorb or receive a majority of the entity's expected losses or expected residual returns. We participate significantly in the design of this MSA. We also agree to provide working capital loans to allow for the medical group to pay for its obligations. Substantially all of the activities of this managed medical corporation either involve us or are conducted for our benefit, as evidenced by the fact that under the MSA, we agree to provide and perform all non-medical management and administrative services for the medical group. Payment of our management fee is subordinate to payments of the obligations of the medical group, and repayment of the working capital loans is not guaranteed by the equity owner of the affiliated medical group or other third party. Creditors of the managed medical corporation do not have recourse to our general credit.

Based on the design and provisions of this MSA and the working capital loans provided to the medical group, we have determined that the managed medical corporation is a VIE, and that we are the primary beneficiary as defined in the current accounting rules. Accordingly, we are required to consolidate the revenues and expenses of the managed medical corporation.

Management Services Agreement

We have an executed MSA with a medical professional corporation and related treatment center. Under the MSA, we license to the treatment center the right to use our proprietary treatment programs and related trademarks and provide all required day-to-day business management services, including, but not limited to:

- general administrative support services;
- information systems;
- recordkeeping;
- scheduling;
- billing and collection;
- marketing and local business development; and
- obtaining and maintaining all federal, state and local licenses, certifications and regulatory permits.

The treatment center retains the sole right and obligation to provide medical services to its patients and to make other medically related decisions, such as the choice of medical professionals to hire or medical equipment to acquire and the ordering of drugs.

In addition, we provide office space to the treatment center on a non-exclusive basis, and we are responsible for all costs associated with rent and utilities. The treatment center pays us a monthly fee equal to the aggregate amount of (a) our costs of providing management services (including reasonable overhead allocable to the delivery of our services and including salaries, rent, equipment, and tenant improvements incurred for the benefit of the medical group, provided that any capitalized costs will be amortized over a five-year period), (b) 10%-15% of the foregoing costs, and (c) any performance bonus amount, as determined by the treatment center at its sole discretion. The treatment center’s payment of our fee is subordinate to payment of the treatment center's obligations, including physician fees and medical group employee compensation.

We have also agreed to provide a credit facility to the treatment center to be available as a working capital loan, with interest at the Prime Rate plus 2%. Funds are advanced pursuant to the terms of the MSA described above. The notes are due on demand or upon termination of the MSA. At September 30, 2013, there was one outstanding credit facility under which $12.9 million was outstanding. Our maximum exposure to loss could exceed this amount, and cannot be quantified as it is contingent upon the amount of losses incurred by the treatment center that we are required to fund under the credit facility.

Under the MSA, the equity owner of the affiliated treatment center has only a nominal equity investment at risk, and we absorb or receive a majority of the entity’s expected losses or expected residual returns. We also agree to provide working capital loans to allow for the treatment center to pay for its obligations. Substantially all of the activities of the managed medical corporation either involves us or are conducted for our benefit, as evidenced by the facts that (i) the operations of the managed medical corporation is conducted primarily using our licensed protocols and (ii) under the MSA, we agree to provide and perform all non-medical management and administrative services for the treatment center. Payment of our management fee is subordinate to payments of the obligations of the treatment center, and repayment of the working capital loans is not guaranteed by the equity owner of the affiliated treatment center or other third party. Creditors of the managed medical corporation do not have recourse to our general credit. Based on these facts, we have determined that the managed medical corporation is a VIE and that we are the primary beneficiary as defined in current accounting rules. Accordingly, we are required to consolidate the assets, liabilities, revenues and expenses of the managed treatment center.

The amounts and classification of assets and liabilities of the VIE included in our condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, are as follows:

(in thousands)	September 30, 2013	(audited) December 31, 2012
Cash and cash equivalents	$ 3	$ 11
Receivables, net	25	19
Total assets	$ 28	30
Accounts payable	13	15
Note payable to Catasys, Inc.	12,904	12,267
Total liabilities	$ 12,917	12,282

Warrant Liabilities

In April 2013, we entered into the April Agreements with several investors relating to the sale and issuance of an aggregate of 2,192,857 shares of common stock and warrants to purchase an aggregate of 2,192,857 shares of common stock at an exercise price of $0.70 per share for aggregate gross proceeds of approximately $1.5 million (the "April Offering"). The April Agreements provide that in the event that we effectuate a Reverse Split and the VWAP period declines from the closing price on the trading date immediately prior to the effective date of the Reverse Split, that we shall issue the Adjustment Shares. We effectuated a reverse split on May 6, 2013, and no Adjustment Shares were issued.

The April Warrants expire in April 2018, and contain anti-dilution provisions. As a result, if we, in the future, issue or grant any rights to purchase any of our common stock, or other securities convertible into our common stock, for a per share price less than the exercise price of the April Warrants, the exercise price of the April Warrants will be reduced to such lower price, subject to customary exceptions. In the event that Adjustment Shares are issued, the number of shares that may be purchased under the April Warrants shall be increased by an amount equal to the Adjustment Shares. In addition, the exercise price is subject to adjustment in the event that the VWAP during the VWAP period is less than the exercise price prior to the VWAP Period.

We have issued warrants to purchase common stock in July 2010, October 2010, November 2010, December 2011, February 2012, April 2012, May 2012, September 2012, December 2012, April 2013, and when we amended and restated the Highbridge senior secured note in July 2008. The warrants are being accounted for as liabilities in accordance with FASB accounting rules, due to provisions in some warrants that protect the holders from declines in our stock price and a requirement to deliver registered shares upon exercise of the warrants, which is considered outside our control. The warrants are marked-to-market each reporting period, using the Black-Scholes pricing model, until they are completely settled or expire.

For the three and nine months ended September 30, 2013, we recognized a non-operating gain of $2.2 million and $2.6 million, compared with a non-operating gain of $1.8 million and $4.1 million for the same periods in 2012, respectively, related to the revaluation of our warrant liabilities.

Recently Issued or Newly Adopted Accounting Standards

In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). The amendments in this update require enhanced disclosures around financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The amendments are effective during interim and annual periods beginning after December 31, 2012. The adoption of ASU No. 2011-11 did not have a material effect on our consolidated financial statements or disclosures.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, ("ASU 2013-02"). ASU 2013-02 amends ASC 220, *Comprehensive Income* ("ASC 220"), and requires entities to present the changes in the components of accumulated other comprehensive income for the current period. Entities are required to present separately the amount of the change that is due to reclassifications, and the amount that is due to current period other comprehensive income. These changes are permitted to be shown either before or net-of-tax and can be displayed either on the face of the financial statements or in the footnotes. ASU 2013-02 was effective for our interim and annual periods beginning January 1, 2013. The adoption of ASU 2013-02 did not have a material effect on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, ("ASU 2013-02"), which eliminates diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. ASU 2013-11 affects only the presentation of such amounts in an entity's balance sheet and is effective for fiscal years beginning after December 15, 2013 and interim periods within those years. Early adoption is permitted. We are evaluating the impact, if any, of the adoption of ASU 2013-11 on our balance sheet.

Note 3. Segment Information

We manage and report our operations through two business segments: healthcare services and license and management services. We evaluate segment performance based on total assets, revenue and income or loss before provision for income taxes. Our assets are included within each discrete reporting segment. In the event that any services are provided to one reporting segment by the other, the transactions are valued at the market price. No such services were provided during the three and nine months ended September 30, 2013 and 2012. Summary financial information for our two reportable segments are as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Healthcare services				
Revenues	$ 109	$ 100	$ 315	$ 226
Income (loss) before provision for income taxes	$ 924	$ 66	$ (2,441)	$ (4,714)
Assets *	1,117	2,068	1,117	2,068
License and management services				
Revenues	$ 21	$ 40	$ 83	$ 136
Loss before provision for income taxes	$ (242)	$ (321)	$ (735)	$ (1,157)
Assets *	970	1,603	970	1,603
Consolidated continuing operations				
Revenues	$ 130	$ 140	$ 398	$ 362
Income (loss) before provision for income taxes	$ 682	$ (255)	$ (3,176)	$ (5,871)
Assets *	2,087	3,671	2,087	3,671

* Assets are reported as of September 30.

Healthcare Services

Catasys' integrated substance dependence solutions combine innovative medical and psychosocial treatments with elements of traditional disease management, case management and ongoing member support to help organizations treat and manage substance dependent populations to impact both the medical and behavioral health costs associated with substance dependence and the related co-morbidities.

We are currently marketing our integrated substance dependence solutions to managed care health plans on a case rate, monthly fee basis, or fee-for-service basis, which involves educating third party payors on the disproportionately high cost of their substance dependent population and demonstrating the potential for improved clinical outcomes and reduced cost associated with using our Catasys programs. We are operating our programs in Kansas, Massachusetts, Louisiana, and Oklahoma. In 2013, we signed two agreements with national health plans to provide services to their members in New Jersey and Kentucky, Ohio, West Virginia, and Indiana, respectively. We have launched enrollment in Kentucky and West Virginia in October 2013 and expect to commence enrollment in the remaining states by the end of the fourth quarter of 2013.

The following table summarizes the operating results for Healthcare Services for the three and nine months ended September 30, 2013 and 2012:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	$ 109	$ 100	$ 315	$ 226
Operating Expenses				
Cost of healthcare services	$ 162	$ 135	$ 454	$ 427
General and administrative expenses				
Salaries and benefits	916	1,187	2,874	4,275
Other expenses	330	531	1,246	1,662
Depreciation and amortization	7	(2)	18	6
Total operating expenses	$ 1,415	$ 1,851	$ 4,592	$ 6,370
Loss from operations	$ (1,306)	$ (1,751)	$ (4,277)	$ (6,144)
Interest and other income	-	-	-	-
Interest expense	(1)	(1)	(771)	(2,697)
Change in fair value of warrant liabilities	2,231	1,818	2,607	4,127
Income/(loss) before provision for income taxes	$ 924	$ 66	$ (2,441)	$ (4,714)

License and Management Services

Our license and management services segment primarily represents our managed treatment office, which offers a range of addiction treatment and mental health services.

The following table summarizes the operating results for License and Management Services for the three and nine months September 30, 2013 and 2012:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenues				
U.S. licensees	$ -	$ -	$ 6	$ 14
Managed treatment center	21	40	77	122
Total license and management revenues	$ 21	$ 40	$ 83	$ 136
Operating expenses				
Cost of license and management services	$ 59	$ 63	$ 174	$ 191
General and administrative expenses				
Salaries and benefits	114	150	358	465
Other expenses	55	77	173	227
Impairment losses	-	-	-	189
Depreciation and amortization	35	71	113	221
Total operating expenses	$ 263	$ 361	$ 818	$ 1,293
Loss from operations	$ (242)	$ (321)	$ (735)	$ (1,157)
Interest and other income	-	-	-	-
Interest expense	-	-	-	-
Loss before provision for income taxes	$ (242)	$ (321)	$ (735)	$ (1,157)

Note 4. Related Party Disclosure

In December 2010, we entered into a three-year sublease agreement with Xoftek, Inc., an affiliate of our Chairman and Chief Executive Officer ("CEO"), to sublease approximately one-third of our office space for a three-year term for a monthly rent of approximately $11,000 per month. The related party receivable as of September 30, 2013 and December 31, 2012 was $269,000 and $173,000, respectively. We have received approximately $81,000 in payments through September 30, 2013.

Crede, an affiliate of our Chairman and CEO, and Shamus, an affiliate of the Company, participated in our April 2013 Offering. They received approximately 2,055,715 shares of common stock and warrants to purchase an aggregate 2,055,715 shares of common stock at a price of $0.70 per share, for gross proceeds of approximately $1.4 million.

Note 5. Restatement of Financial Statements

The financial statements have been retroactively restated to reflect the 10-for-1 reverse stock split that occurred on May 6, 2013.

Note 6. Subsequent Events

In October 2013, we entered into securities purchase agreements with several investors, including Crede CG III, Ltd. ("Crede III"), an affiliate of Terren S. Peizer, Chairman and Chief Executive Officer of the Company, and Shamus, an affiliate of the Company, relating to the sale and issuance of an aggregate of 4,550,002 shares of common stock, and warrants (the "October Warrants") to purchase an aggregate of 4,550,002 shares of Common Stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $2.6 million. The October Warrants expire in October 2018, and contain anti-dilution provisions. As a result, if we, in the future, issue or grant any rights to purchase any of our Common Stock, or other security convertible into our Common Stock, for a per share price less than the exercise price of the October Warrants, the exercise price of the October Warrants will be reduced to such lower price, subject to customary exceptions.

Among other things, the Agreements provide that in the event that the Company effectuates a reverse stock split of its Common Stock within 24 months of the closing date of the Offering (the "Reverse Split") and the volume weighted average price ("VWAP") of the Common Stock during the 20 trading days following the effective date of the Reverse Split (the "VWAP Period") declines from the closing price on the trading date immediately prior to the effective date of the Reverse Split, that the Company issue additional shares of Common Stock (the "Adjustment Shares"). The number of Adjustment Shares shall be calculated as the lesser of (a) 20% of the number of shares of Common Stock originally purchased by such investor and still held by the investor as of the last day of the VWAP Period, and (b) the number of shares originally purchased by such investor and still held by such investor as of the last day of the VWAP Period multiplied by the percentage decline in the VWAP during the VWAP Period. All prices and number of shares of Common Stock shall be adjusted for the Reverse Split and any other stock splits or stock dividends.

In November 2013, we signed an office lease for new corporate offices located in Los Angeles, California.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements including the related notes, and the other financial information included in this report.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management, markets for stock of Catasys and other matters. Statements in this report that are not historical facts are hereby identified as "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Such forward-looking statements, including, without limitation, those relating to the future business prospects, our revenue and income, wherever they occur, are necessarily estimates reflecting the best judgment of our senior management as of the date on which they were made, or if no date is stated, as of the date of this report. These forward-looking statements are subject to risks, uncertainties and assumptions, including those described in the "Risk Factors" in Item 1A of Part I of our most recent Annual Report on Form 10-K ("Form 10-K") for the fiscal year ended December 31, 2012 and other reports we filed with the Securities and Exchange Commission ("SEC"), that may affect the operations, performance, development and results of our business. Because the factors discussed in this report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any such forward-looking statements. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We assume no obligation and do not intend to update these forward looking statements, except as required by law.

OVERVIEW

General

We are a healthcare services company, providing specialized health services designed to assist health plans and other third party payors to manage and treat their high cost substance dependence members through a network of healthcare providers and our employees. The On*Trak* substance dependence program was designed to address substance dependence as a chronic disease. The program seeks to lower costs by improving member health through the delivery of integrated medical and psychosocial interventions in combination with long term "care coaching." We also have a company managed psychiatry practice that offers a variety of mental health and substance dependence treatments primarily on a fee-for-service basis out of our offices and via telephonic psychiatry.

Operations

In the third quarter of 2013 we are operating our integrated substance dependence solutions for third-party payors in Kansas, Louisiana, Massachusetts, and Oklahoma. In March 2013, we signed a national agreement with a national health plan to provide the On*Trak* program to their commercial members starting in New Jersey. In June 2013, we signed an agreement with a national health plan to provide services to their individually enrolled Medicare Advantage members in Ohio, West Virginia, Kentucky, and Indiana. Implementation is under way and we have launched enrollment in Kentucky and West Virginia in October 2013 and we expect to commence enrollment in the remaining states by the end of the fourth quarter of 2013. However as our customers control significant portions of implementation, there are no assurances that commencement will not be delayed. Together these two contracts are expected to more than quadruple the number of members covered by our On*Trak* programs. We believe that our Catasys offerings address a high cost segment of the healthcare market for substance dependence, and we are currently marketing our Catasys integrated substance dependence solutions to managed care health plans on a case rate, monthly fee or fee-for-service basis, which involves educating third party payors on the disproportionately high cost of their substance dependent population and demonstrating the potential for improved clinical outcomes and reduced cost associated with using our Catasys programs.

We currently manage, under a licensing agreement, one professional medical corporation located in Los Angeles, California (dba The Center to Overcome Addiction). We manage the business components of the professional medical corporation and license a proprietary treatment program in exchange for management and licensing fees under the terms of full business service management agreements. The professional medical corporation offers medical and psychosocial interventions for substance dependencies and mental health disorders. The revenues and expenses of this center are included in our consolidated financial statements under accounting standards applicable to variable interest entities. In July 2012, we moved the professional medical corporation offices into our corporate offices, which reduced operating expenses, and as of November 2013 the majority of services are being delivered telephonically. We expect revenues associated with the treatment centers to continue to decline and are currently evaluating and considering additional actions to streamline our operations that may impact the managed treatment center.

RESULTS OF OPERATIONS

Table of Summary Consolidated Financial Information

The table below and the discussion that follows summarizes our results of consolidated operations for the three and nine months ended September 30, 2013 and 2012:

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Healthcare services revenues	$ 109	$ 100	$ 315	$ 226
License and management services revenues	21	40	83	136
Total revenues	130	140	398	362
Operating expenses				
Cost of services	221	197	628	618
General and administrative	1,415	1,946	4,651	6,629
Impairment losses	-	-	-	189
Depreciation and amortization	42	69	131	227
Total operating expenses	1,678	2,212	5,410	7,663
Loss from operations	(1,548)	(2,072)	(5,012)	(7,301)
Interest and other income	-	-	-	-
Interest expense	(1)	(1)	(771)	(2,697)
Change in fair value of warrant liability	2,231	1,818	2,607	4,127
Income/(Loss) from operations before provision for income taxes	682	(255)	(3,176)	(5,871)
Provision for income taxes	2	2	5	18
Net Income/(Loss)	$ 680	$ (257)	$ (3,181)	$ (5,889)
Basic and diluted net income (loss) per share:*				
Basic net income (loss) per share*	$ 0.05	$ (0.04)	$ (0.24)	$ (1.23)
Basic weighted number of shares outstanding*	14,286	5,908	13,429	4,802
Diluted net income (loss) per share*	$ 0.04	$ (0.04)	$ (0.24)	$ (1.23)
Diluted weighted number of shares outstanding*	19,364	5,908	13,429	4,802

* The financial statements have been retroactively restated to reflect the 10-for-1 reverse stock split that occurred on May 6, 2013.

Summary of Consolidated Operating Results

We had a net income from continuing operations before provision for income taxes of $682,000 and a net loss of $257,000 for the three months ended September 30, 2013 and 2012, respectively. The difference primarily relates to the increase in the gain on the fair value of warrants of $413,000 and the decrease in operating expense of $534,000. We had a $3.2 million and $5.9 million loss from continuing operations before provision for income tax for the nine months ended September 30, 2013 and 2012. The reduction in net loss primarily relates to the decrease in operating expenses of $2.3 million, the reduction of interest expense of $1.9 million, offset by a decrease in the gain on the fair value of warrants of $1.5 million.

Revenues

As of September 30, 2013, five healthcare services contracts were operational covering a significant increase in the number of patient's being treated during the same period in 2012. In the three and nine months ended September 30, 2013, enrollment increased 133% and 82%, respectively, over the same periods in 2012. As a result, recognized revenue for our healthcare services segment increased by 9% and 39%, or $9,000 and $89,000, for the three and nine months ended September 30, 2013, respectively, compared with the same periods in 2012. In addition, most of our fees related to these contracts are initially recorded to deferred revenue as the revenues are subject to performance guarantees, or for contracts on a case rate basis, recognized ratably over the period of enrollment. Deferred revenue was $667,000 and $278,000 as of September 30, 2013 and 2012, respectively, which reflects the increasing enrollment. If we were able to recognize this revenue, we would have increased healthcare services revenue by $478,000 for the nine months ended September 30, 2013, or 95%, compared with the same period in 2012.

Revenues decreased by $19,000 and $53,000 for the license and management services segment, for the three and nine months September 30, 2013, respectively, compared with the same periods in 2012 due to a decrease in number of patient visits at the managed physician practice primarily related to the move of the treatment office as well as continuing to decrease resources allocated to the practice. We anticipate that revenue associated with this segment will continue to decrease as we continue to focus on our healthcare services segment.

Cost of Healthcare Services

Cost of healthcare services consists primarily of salaries related to our care coaches, healthcare provider claims payments, and fees charged by our third party administrators for processing these claims. The increase of $24,000 and $10,000 for the three and nine months ended September 30, 2013, compared with the same periods in 2012, relates primarily to the increase in members being treated, the mix in members treated, and the addition of more care coaches to our staff.

General and Administrative Expenses

Total general and administrative expense decreased by $531,000 and $2.0 million for the three and nine months ended September 30, 2013, respectively, compared with the same periods in 2012. The decrease was due primarily to a reduction in share-based compensation expense as a result of a majority of our stock options becoming fully vested at the end of 2012.

Impairment Losses

We had no impairment losses during the first nine months of 2013 compared with $189,000 in impairment charges related to intellectual property for the same period in 2012.

There was no impairment loss related to property plant and equipment for the three and nine months ended September 30, 2013 and 2012.

Interest Expense

Interest expense was flat for the three months ended September 30, 2013 and decreased by $1.9 million for the nine months ended September 30, 2013 compared with the same period in 2013 due to the conversion of note payables to equity that occurred in April 2012.

Change in fair value of warrant liability

We issued warrants to purchase common stock in July 2010, October 2010, November 2010, December 2011, February 2012, April 2012, May 2012, September 2012, December 2012, April 2013, and when we amended and restated the Highbridge senior secured note in July 2008. The warrants are being accounted for as liabilities in accordance with FASB accounting rules, due to provisions in some warrants that protect the holders from declines in our stock price and a requirement to deliver registered shares upon exercise of the warrants, which is considered outside our control. The warrants are marked-to-market each reporting period, using the Black-Scholes pricing model, until they are completely settled or expire.

The change in fair value of the warrants increased by $413,000 and decreased by $1.5 million for the three and nine months ended September 30, 2013, respectively, compared with the same periods in 2012.

We will continue to mark the warrants to market value each quarter-end until they are completely settled.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Going Concern

As of November 13, 2013, we had a balance of approximately $2.1 million cash on hand. We had working capital deficit of approximately $3.5 million at September 30, 2013. We have incurred significant net losses and negative operating cash flows since our inception. We could continue to incur negative cash flows and net losses for the next twelve months. Our current cash burn rate is approximately $450,000 per month, excluding non-current accrued liability payments. We expect our current cash resources to cover expenses into the second quarter of 2014, however delays in cash collections, revenue, or unforeseen expenditures, could impact this estimate.

In April 2013, we entered into securities purchase agreements with several investors, including Crede CG II, Ltd., an affiliate of Terren S. Peizer, Chairman and Chief Executive Officer of the Company, and Shamus, LLC, an affiliate of the Company, relating to the sale and issuance of an aggregate of 2,192,857 shares of common stock, and warrants (the "April Warrants") to purchase an aggregate of 2,192,857 shares of Common Stock at an exercise price of $0.70 per share for aggregate gross proceeds of approximately $1,535,000. The April Warrants expire in April 2018, and contain anti-dilution provisions. As a result, if we, in the future, issue or grant any rights to purchase any of our Common Stock, or other security convertible into our Common Stock, for a per share price less than the exercise price of the April Warrants, the exercise price of the April Warrants will be reduced to such lower price, subject to customary exceptions.

In October 2013, we entered into securities purchase agreements with several investors, including Crede CG III, Ltd., an affiliate of Terren S. Peizer, Chairman and Chief Executive Officer of the Company, and Shamus LLC, an affiliate of the Company, relating to the sale and issuance of an aggregate of 4,550,002 shares of common stock, and warrants (the "October Warrants") to purchase an aggregate of 4,550,002 shares of Common Stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $2.6 million. The October Warrants expire in October 2018, and contain anti-dilution provisions. As a result, if we, in the future, issue or grant any rights to purchase any of our Common Stock, or other security convertible into our Common Stock, for a per share price less than the exercise price of the October Warrants, the exercise price of the October Warrants will be reduced to such lower price, subject to customary exceptions.

We have a related party receivable from Xoftek, Inc., an affiliate of Terren S. Peizer, our Chairman and Chief Executive Officer, in the amount of $269,000 at September 30, 2013, which represents unpaid monthly rent related to a January 1, 2011 sublease agreement.

Our ability to fund our ongoing operations and continue as a going concern is dependent on increasing fees from existing contracts, successfully implementing and enrolling members under our two new contracts, and signing and generating fees from additional contracts for our Catasys managed care programs and the success of management's plans to increase revenue and continue to control expenses. We are currently operating our programs in Kansas, Kentucky, Louisiana, Oklahoma, Massachusetts, and West Virginia. In March 2013, we signed a national agreement with a national health plan to provide the On*Trak* program to their commercial members starting in New Jersey. In June 2013, we signed an agreement with a national health plan to provide services to their individually enrolled Medicare Advantage members in Ohio, West Virginia, Kentucky, and Indiana. Implementation is under way and we expect to commence enrollment for both new contracts by the end of the fourth quarter of 2013, however as our customers control significant portions of implementation, there are no assurances that commencement will not be delayed. We are generating fees from the launched programs, we have increased fees during the first nine months of 2013 over the same period in the prior year, and we expect to continue to increase enrollment and fees from our programs throughout this year. However, there can be no assurance that we will generate such fees. In addition, we have continued to seek areas to reduce our operating expenses.

In addition, we and our Chief Executive Officer are party to a litigation in which the plaintiffs assert causes of action for conversion, a request for an order to set aside fraudulent conveyance and breach of contract. While we believe the plaintiffs' claims are without merit and we intend to continue to vigorously defend the case, there can be no assurance that the litigation will be resolved in our favor. If this case is decided against us or our Chief Executive Officer, it may cause us to pay substantial damages, and other related fees. Regardless of whether this litigation is resolved in our favor, any lawsuit to which we are a party will likely be expensive and time consuming to defend or resolve. Costs of defense and any damages resulting from litigation, a ruling against us or a settlement of the litigation could have a significant negative impact on our liquidity, including our cash flows.

Cash Flows

We used $4.3 million of cash for continuing operating activities during the nine months September 30, 2013 compared with $4.5 million in 2012. Significant non-cash adjustments to operating activities for the nine months ended September 30, 2013 included share-based compensation expense of $165,000, depreciation and amortization of $131,000, amortization of debt discount of $769,000, and a fair value adjustment on warrant liability of $2.6 million.

Capital expenditures for the nine months ended September 30, 2013 were not material. Our future capital expenditure requirements will depend upon many factors, including progress with our marketing efforts, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the necessity of, and time and costs involved in obtaining, regulatory approvals, competing technological and market developments, and our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements.

Our net cash provided by financing activities was $1.5 million for the nine months ended September 30, 2013, compared with net cash provided by financing activities of $5.3 million for the nine months ended September 30, 2012. Cash provided by financing activities for the nine months ended September 30, 2013 consisted of the exercise of warrants during the first quarter of 2013 and the net proceeds from the securities offerings in April 2013, leaving a balance of $422,000 in cash and cash equivalents at September 30, 2013.

OFF BALANCE SHEET ARRANGEMENTS

As of September 30, 2013, we had no off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. We base our estimates on experience and on various other assumptions that we believe 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 may not be readily apparent from other sources. On an on-going basis, we evaluate the appropriateness of our estimates and we maintain a thorough process to review the application of our accounting policies. Our actual results may differ from these estimates.

We consider our critical accounting estimates to be those that (1) involve significant judgments and uncertainties, (2) require estimates that are more difficult for management to determine, and (3) may produce materially different results when using different assumptions. We have discussed these critical accounting estimates, the basis for their underlying assumptions and estimates and the nature of our related disclosures herein with the audit committee of our Board of Directors. We believe our accounting policies specific to the fair value of warrants, share-based compensation expense, and the impairment assessment for intangible assets, involve our most significant judgments and estimates that are material to our condensed consolidated financial statements. They are discussed further below.

Warrant Liabilities

We issued warrants to purchase common stock in July 2010, October 2010, November 2010, December 2011, February 2012, April 2012, May 2012, September 2012, December 2012, April 2013, and when we amended and restated the Highbridge senior secured note in July 2008. The warrants are being accounted for as liabilities in accordance with FASB accounting rules, due to provisions in some warrants that protect the holders from declines in our stock price and a requirement to deliver registered shares upon exercise of the warrants, which is considered outside our control. The warrants are marked-to-market each reporting period, using the Black-Scholes pricing model, until they are completely settled or expire.

For the three and nine months ended September 30, 2013, we recognized a non-operating gain of $2.2 million and $2.6 million, compared with a non-operating gain of $1.8 million and $4.1 million for the same period in 2012, related to the revaluation of our warrant liabilities.

Share-based compensation expense

We account for the issuance of stock, stock options, and warrants for services from non-employees based on an estimate of the fair value of options and warrants issued using the Black-Scholes pricing model. This model's calculations include the exercise price, the market price of shares on grant date, weighted average assumptions for risk-free interest rates, expected life of the option or warrant, expected volatility of our stock and expected dividend yield.

The amounts recorded in the financial statements for share-based compensation expense could vary significantly if we were to use different assumptions. For example, the assumptions we have made for the expected volatility of our stock price have been based on the historical volatility of our stock, measured over a period generally commensurate with the expected term. If we were to use a different volatility than the actual volatility of our stock price, there may be a significant variance in the amounts of share-based compensation expense from the amounts reported. The weighted average expected option term for the three and nine months ended September 30, 2013, reflects the application of the simplified method set out in SEC Staff Accounting Bulletin No. 107, which defines the life as the average of the contractual term of the options and the weighted average vesting period for all option tranches.

From time to time, we have retained terminated employees as part-time consultants upon their resignation from the Company. Because the employees continued to provide services to us, their options continued to vest in accordance with the original terms. Due to the change in classification of the option awards, the options were considered modified at the date of termination. The modifications were treated as exchanges of the original awards in return for the issuance of new awards. At the date of termination, the unvested options were no longer accounted for as employee awards and were accounted for as new non-employee awards. The accounting for the portion of the total grants that have already vested and have been previously expensed as equity awards is not changed. There were no employees moved to consulting status for the three and nine months ended September 30, 2013.

Impairment of Intangible Assets

We have capitalized significant costs for acquiring patents and other intellectual property directly related to our products and services. We review our intangible assets for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. In reviewing for impairment, we compare the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and/or their eventual disposition. If the estimated undiscounted future cash flows are less than their carrying amount, we record an impairment loss to recognize a loss for the difference between the assets' fair value and their carrying value. Since we have not recognized significant revenue to date, our estimates of future revenue may not be realized and the net realizable value of our capitalized costs of intellectual property or other intangible assets may become impaired.

During the three and nine months ended September 30, 2013, we did not acquire any new intangible assets and as of September 30, 2013, all of our intangible assets consisted of intellectual property, which is not subject to renewal or extension. We had no intangible impairment for the three and nine months ended September 30, 2013. We had no intangible impairment for the three months ended September 30, 2012 and $189,000 for the nine months ended September 30, 2012

Additionally, it is important to note that our overall business model, business operations and future prospects of our business have not changed materially since we performed the reviews and analysis noted above, with the exception of the timing and annualized amounts of expected revenue.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). The amendments in this update require enhanced disclosures around financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The amendments are effective during interim and annual periods beginning after December 31, 2012. The adoption of ASU No. 2011-11 did not have a material effect on our consolidated financial statements or disclosures.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, ("ASU 2013-02"). ASU 2013-02 amends ASC 220, *Comprehensive Income* ("ASC 220"), and requires entities to present the changes in the components of accumulated other comprehensive income for the current period. Entities are required to present separately the amount of the change that is due to reclassifications, and the amount that is due to current period other comprehensive income. These changes are permitted to be shown either before or net-of-tax and can be displayed either on the face of the financial statements or in the footnotes. ASU 2013-02 was effective for our interim and annual periods beginning January 1, 2013. The adoption of ASU 2013-02 did not have a material effect on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, ("ASU 2013-02"), which eliminates diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward is available to reduce the taxable income or tax payable that would result from disallowance of a tax position. ASU 2013-11 affects only the presentation of such amounts in an entity's balance sheet and is effective for fiscal years beginning after December 15, 2013 and interim periods within those years. Early adoption is permitted. We are evaluating the impact, if any, of the adoption of ASU 2013-11 on our balance sheet.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls

We have evaluated, with the participation of our principal executive officer and our principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2013. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting during the three months ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On or about August 18, 2006, plaintiffs Isaka Investments, Ltd., Sand Hill Capital International Inc. and Richbourg Financial, Ltd. ("Plaintiffs") filed a complaint in the Los Angeles Superior Court, entitled *Isaka Investments, Ltd., Sand Hill Capital International, Inc. and Richbourg Financial, Ltd. vs. Xino Corporation*, an entity from which the Company had acquired certain assets, and a number of other additional individuals and entities, including the Company, the Company's Chairman and Chief Executive Officer, Terren S. Peizer, and other members of the Company's Board of Directors. The Board of Directors and other parties were dismissed by way of demurrer. In July 2007, Plaintiffs filed their second amended complaint, asserting causes of action for conversion, a request for an order to set aside an alleged fraudulent conveyance and breach of contract against the Company, Mr. Peizer, and others. In August 2007, the Company and Mr. Peizer, among others, filed an answer to the second amended complaint denying liability and asserting numerous affirmative defenses. In June 2008, the Company, Mr. Peizer, and others, filed a motion for summary judgment, or alternatively, summary adjudication, and in October 2008, the Court granted summary adjudication as to each cause of action and consequently summary judgment in favor of the Company and Mr. Peizer, among others. Plaintiffs appealed the summary judgment and in October 2010, the Court of Appeal reversed the trial court's ruling. The Court of Appeal's decision was not on the merits, but rather provides that there are sufficient material issues of fact for the case to be tried. The Court of Appeal issued a remittitur in December 2010, and Plaintiffs filed a motion for leave to amend the second amended complaint, which was granted in June 2011. In June 2011, Plaintiffs filed their third amended complaint and, in August 2011, in response to a demurrer filed by the Company, Mr. Peizer and others, the Court held that Plaintiffs' third amended complaint was not pled with sufficient specificity to state the causes of action alleged therein. In September 2011, Plaintiffs filed a fourth amended complaint, alleging causes of action for breach of fiduciary duty, fraudulent transfer, conversion, fraud, breach of contract, unfair business practices and wrongful interference with contractual relations and prospective business advantage. The Company filed a demurrer related to the fourth amended complaint in September 2011. At the hearing, the Court sustained, without leave to amend, the demurrers to the causes of action for breach of fiduciary duty and wrongful interference with contractual relations and prospective business advantage. In October 2011, the Company, Mr. Peizer and others, filed an answer to the fourth amended complaint, denying liability and asserting numerous affirmative defenses. In April 2012, the Court conducted a bench trial on the issue of whether the Plaintiffs have standing to pursue the causes of action alleged in their Fourth Amended Complaint other than the causes of action for conversion and breach of contract. At the conclusion of the trial, the Court ruled that Plaintiffs lack standing to pursue any causes of action other than for conversion and breach of contract. A Statement of Decision and Order of Dismissal was signed by the Court on July 18, 2012. Thereafter, the Plaintiffs filed an ex parte application to reopen the evidence which was denied by the Court. The Plaintiffs also filed a motion to amend their complaint seeking to add back in the claims that they lost at trial. The motion to amend was denied. On July 3, 2012, September 5, 2012 and October 15, 2012, the Plaintiffs filed Petitions for Writs of Mandate in the Court of Appeal. The Writs were summarily denied by the Court of Appeal. On October 9, 2012, the Court commenced hearings regarding the trial of the conversion and breach of contract causes of action. On October 15, 2012, the parties, through their counsel of record, stipulated to a bench trial on the admissibility and enforceability of a 2007 settlement agreement between Xino Corporation and the Company (the "Settlement Agreement"). Thus, the parties submitted the issue to the Court for a bench trial to determine whether the Settlement Agreement was admissible and effective to bar the two remaining claims. The Court held that the Settlement Agreement was admissible and enforceable to release the remaining claims. Accordingly, judgment was entered for the Company on November 19, 2012. Plaintiffs filed a notice of appeal on December 10, 2012. The appeal has been fully briefed and an oral argument has been scheduled for December 11, 2013. The Company has had very limited settlement discussions and the Company believes Plaintiffs' claims are without merit and intends to continuously, and vigorously, defend the case.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our most recent Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

In November 2013, we signed an office lease for new corporate offices located in Los Angeles, California.

Item 6. Exhibits

Exhibit 10.1	Office Lease between Catasys, Inc. and Trizec Wilshire Center, LLC, dated November 6, 2013.
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

SIGNATURES

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

CATASYS, INC.

Date: November 13, 2013

By: /s/ TERREN S. PEIZER
Terren S. Peizer
Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2013

By: /s/ SUSAN ETZEL
Susan Etzel
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.1

OFFICE LEASE

This Office Lease (this "**Lease**"), dated as of the date set forth in Section 1.1, is made by and between **TRIZEC WILSHIRE CENTER, LLC, a Delaware limited liability company** ("**Landlord**"), and **CATASYS, INC., a Delaware corporation** ("**Tenant**"). The following exhibits are incorporated herein and made a part hereof: **Exhibit A** (Outline of Premises); **Exhibit B** (Work Letter); **Exhibit C** (Form of Confirmation Letter); **Exhibit D** (Rules and Regulations); **Exhibit E** (Judicial Reference); and **Exhibit F** (Additional Provisions).

1 BASIC LEASE INFORMATION.

1.1 Date: November 6, 2013

1.2 Premises.

1.2.1 "**Building**": 11601 Wilshire Boulevard, Los Angeles, California, commonly known as **Wells Fargo Center (formerly known as Wachovia Center)**.

1.2.2 "**Premises**": Subject to Section 2.1.1, **9,076** rentable square feet of space located on the ninth (9^{th}) floor of the Building and commonly known as Suite No. 950, the outline and location of which is set forth in **Exhibit A**.

1.2.3 "**Property**": The Building, the parcel(s) of land upon which it is located, and, at Landlord's discretion, any parking facilities and other improvements serving the Building and the parcel(s) of land upon which such parking facilities and other improvements are located.

1.2.4 "**Project**": The Building and Property.

1.3 Term

1.3.1 Term: Approximately sixty-four (64) months, beginning on the Commencement Date and expiring on the Expiration Date (or any earlier date on which this Lease is terminated as provided herein).

1.3.2 "**Commencement Date**": The earlier of: (i) the date Tenant commences operation of its business in all or any portion of the Premises; or (ii) the date the Tenant Improvement Work has been Substantially Completed (as defined in the Work Letter), which Commencement Date is anticipated to occur by **December 15, 2013**

1.3.3 "**Expiration Date**": The last day of the sixty-fourth (64th) full calendar month following the Commencement Date.

1.4 "**Base Rent**":

Period During Term	Annual Base Rent Per Rentable Square Foot (rounded to the nearest 100th of a dollar)	Monthly Installment of Base Rent
Commencement Date through last day of 12th full calendar month of Term	$37.80	$28,589.40
13^{th} through 24^{th} full calendar months of Term	$38.93	$29,444.06

25th through 36th full calendar months of Term	$40.10	$30,328.97
37th through 48th full calendar months of Term	$41.31	$31,244.13
49th through 60th full calendar months of Term	$42.54	$32,174.42
61st full calendar month of the Term through Expiration Date	$43.82	$33,142.53

Base Rent Abatement. Notwithstanding anything in this Section of the Lease to the contrary, so long as Tenant is not in Default (as defined in Section 19) under this Lease, Tenant shall be entitled to an abatement of Base Rent in the amount of: (a) **$28,589.40** per month for four (4) consecutive full calendar months of the Term, beginning with the second (2nd) full calendar month of the Term, and (b) **$14,722.03** applicable to the **13th** full calendar month of the Term. The total amount of Base Rent abated in accordance with the foregoing shall equal **$129,079.63** (the "**Abated Base Rent**"). Only Base Rent shall be abated pursuant to this Section, and all Additional Rent (as defined in Section 3 below) and other costs and charges specified in this Lease shall remain as due and payable pursuant to the provisions of this Lease.

Notwithstanding the foregoing to the contrary, a portion of the Abated Base Rent **not to exceed $28,589.40** may be applied toward the cost of the Allowance Items (as defined in **Exhibit B** of this Lease) (the "**Supplemental TI Allowance**"). In order to exercise such right, Tenant shall provide written notice (a "**Conversion Notice**") to Landlord on or before the Commencement Date, which Conversion Notice shall specify the amount of the Abated Base Rent that Tenant desires to convert into the Supplemental TI Allowance. The amount so converted shall be disbursed in accordance with the terms of Section 1.2 of **Exhibit B**.

1.5 "**Base Year**" for Expenses: Calendar year **2014**.

"**Base Year**" for Taxes: Calendar year **2014**.

1.6 "**Tenant's Share**": **1.8135%** (based upon a total of **500,475** rentable square feet in the Building), subject to Section 2.1.1.

1.7 "**Permitted Use**": General office use consistent with a first-class office building.

1.8. "**Security Deposit**": **$265,143.60**, as more particularly described in Section 21.

Prepaid Base Rent: **$28,589.40**, as more particularly described in Section 3.

1.9	Parking:	Tenant shall have the right to lease up to **27** unreserved parking passes in the Parking Facility (as defined in *Section 24*) as follows: (a) 18 of such unreserved parking passes are designated as "must-take" passes that Tenant is obligated to lease from Landlord during the entire Term; and (b) up to nine (9) passes shall be leased at the option of Tenant. In addition, Tenant shall have the option to convert one (1) of the 18 "must take" passes into a reserved parking pass; provided that if Tenant does not continuously lease such reserved parking pass during the Term, Tenant's right to lease such un-leased reserved parking pass shall be subject to the availability of reserved passes as reasonably determined by Landlord. Prior to the Commencement Date, Tenant shall notify Landlord in writing of the number of unreserved parking passes which Tenant initially elects to lease during the Term, and whether Tenant desires to lease a reserved parking pass. Thereafter, Tenant may, subject to the minimum and maximum amounts set forth herein, increase or decrease the number of such reserved and unreserved parking passes to be used by Tenant pursuant to this Section 1.9. Tenant shall pay Landlord the rate of: **$200.00** per unreserved parking pass per month, plus applicable taxes, if any, and **$335.00** per reserved parking pass per month, plus applicable taxes, if any. Parking rates shall be subject to increase from time to time to reflect the prevailing market rates charged in the Parking Facility. Tenant shall have the right to purchase books of visitor validations at a 15% discount off of the face rate; provided that the minimum purchase amount for which Tenant shall be entitled to receive a 15% discount is $2,000.00.
1.10	Address of Tenant:	Before the Commencement Date: **CATASYS, INC.** 11150 Santa Monica Blvd Suite 1500 Los Angeles, CA 90025 Attn: Rick Anderson From and after the Commencement Date: the Premises.
1.11	Address of Landlord:	**TRIZEC WILSHIRE CENTER, LLC** c/o Equity Office 10880 Wilshire Boulevard Suite 1010 Los Angeles, CA 90024 Attention: Property Manager with copies to: **TRIZEC WILSHIRE CENTER, LLC** c/o Equity Office Two North Riverside Plaza Suite 2100 Chicago, IL 60606 Attn: Managing Counsel and Equity Office Two North Riverside Plaza Suite 2100 Chicago, IL 60606 Attn: Lease Administration

1.12	Broker(s):	**Jones Lang LaSalle** ("**Tenant's Broker**"), representing Tenant, and **L. A. Realty Partners** ("**Landlord's Broker**"), representing Landlord.
1.13	Building HVAC Hours and Holidays:	"**Building HVAC Hours**" means **8:00 A.M. to 6:00 P.M. Monday through Friday, and on Saturdays from 9:00 A.M. to 1:00 P.M.**, excluding the day of observation of New Year's Day, Presidents Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and, at Landlord's discretion, any other locally or nationally recognized holiday that is observed by other Comparable Buildings (defined in Section 25.10) (collectively, "**Holidays**").
1.14	"**Transfer Radius**":	**NONE.**
1.15	"**Tenant Improvements**":	Defined in **Exhibit B**.

2 PREMISES AND COMMON AREAS.

2.1 **The Premises.**

2.1.1 Subject to the terms hereof, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. Landlord and Tenant acknowledge that the rentable square footage of the Premises is as set forth in Section 1.2.2 and the rentable square footage of the Building is as set forth in Section 1.6; provided, however, that Landlord may from time to time re-measure the Premises and/or the Building in accordance with the Standard Method for Measuring Floor Area in Office Buildings, ANSI/BOMA Z65.1 – 1996 and adjust Tenant's Share based on such re-measurement; provided further, however, that any such re-measurement shall not affect the amount of Base Rent payable for, or the amount of any tenant allowance applicable to, the initial Term. Landlord and Tenant shall execute and deliver to each other a notice substantially in the form of **Exhibit C**, as a confirmation of the information set forth therein. Should Tenant fail to execute and return (or, by notice to Landlord, reasonably object to) such notice within thirty (30) days after receiving it, Tenant shall be deemed to have executed and returned it without exception.

2.1.2 Subject to Landlord's performance of Tenant Improvement Work pursuant to **Exhibit B**, the Premises are accepted by Tenant in their configuration and condition existing on the date hereof, without any obligation of Landlord to perform or pay for any alterations to the Premises, and without any representation or warranty regarding the configuration or condition of the Premises, the Building or the Project or their suitability for Tenant's business. Notwithstanding anything contained herein to the contrary, Landlord represents that all Base Building systems serving the Premises are in good working order as of the date of this Lease. If any such Base Building systems are not in good working order as of the date of this Lease, Landlord shall be responsible for repairing or restoring the same at Landlord's cost and without inclusion in Expenses.

2.2 **Common Areas.** Tenant may use, in common with Landlord and other parties and subject to the Rules and Regulations (defined in **Exhibit D**), any portions of the Property that are designated from time to time by Landlord for such use (the "**Common Areas**").

3 RENT. Tenant shall pay all Base Rent and Additional Rent (defined below) (collectively, "**Rent**") to Landlord or Landlord's agent, without prior notice or demand or any setoff or deduction, except as otherwise provided in this Lease, at the place Landlord may designate from time to time, in money of the United States of America that, at the time of payment, is legal tender for the payment of all obligations. As used herein, "**Additional Rent**" means all amounts, other than Base Rent, that Tenant is required to pay Landlord hereunder. Monthly payments of Base Rent and monthly payments of Additional Rent for Expenses (defined in Section 4.2.2), Taxes (defined in Section 4.2.3) and parking (collectively, "**Monthly Rent**") shall be paid in advance on or before the first day of each calendar month during the Term; provided, however, that the installment of Base Rent for the first full calendar month for which Base Rent is payable hereunder shall be paid upon Tenant's execution and delivery hereof. Except as otherwise provided herein, all other items of Additional Rent shall be paid within 30 days after Tenant's receipt of Landlord's request for payment. Rent for any partial calendar month shall be prorated based on the actual number of days in such month. Without limiting Landlord's other rights or remedies, (a) if any installment of Rent is not received by Landlord or its designee within five (5) business days after its due date, Tenant shall pay Landlord a late charge equal to 5% of the overdue amount; and (b) any Rent that is not paid within 10 business days after its due date shall bear interest, from its due date until paid, at a rate equal to 12% per annum. Tenant's covenant to pay Rent is independent of every other covenant herein.

4 EXPENSES AND TAXES.

4.1 **General Terms.** In addition to Base Rent, Tenant shall pay, in accordance with Section 4.4, for each Expense Year (defined in Section 4.2.1), an amount equal to the sum of (a) Tenant's Share of any amount (the "**Expense Excess**") by which Expenses for such Expense Year exceed Expenses for the Base Year, plus (b) Tenant's Share of any amount (the "**Tax Excess**") by which Taxes for such Expense Year exceed Taxes for the Base Year. No decrease in Expenses or Taxes for any Expense Year below the corresponding amount for the Base Year shall entitle Tenant to any decrease in Base Rent or any credit against amounts due hereunder. Tenant's Share of the Expense Excess and Tenant's Share of the Tax Excess for any partial Expense Year shall be prorated based on the number of days in such Expense Year.

4.2 **Definitions.** As used herein, the following terms have the following meanings:

4.2.1 "**Expense Year**" means each calendar year (other than the Base Year and any preceding calendar year) in which any portion of the Term occurs.

4.2.2 "**Expenses**" means all expenses, costs and amounts that Landlord pays or accrues during the Base Year or any Expense Year because of or in connection with the ownership, management, maintenance, security, repair, replacement, restoration or operation of the Property. Landlord shall act in a reasonable manner in incurring Expenses. Expenses shall include (i) the cost of supplying all utilities, the cost of operating, repairing, maintaining and renovating the utility, telephone, mechanical, sanitary, storm-drainage, and elevator systems, and the cost of maintenance and service contracts in connection therewith; (ii) the cost of licenses, certificates, permits and inspections, the cost of contesting any Laws that may affect Expenses, and the costs of complying with any governmentally-mandated transportation-management or similar program; (iii) the cost of all commercially reasonable insurance premiums and deductibles; (iv) the cost of landscaping and relamping; (v) the cost of parking-area operation, repair, restoration, and maintenance; (vi) a management fee in the amount (which is hereby acknowledged to be reasonable) of 3% of gross annual receipts from the Building (excluding the management fee), together with other fees and costs, including consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Property; (vii) the fair rental value of any management office space (but only if such item of Expense is also included in the Base Year); (viii) wages, salaries and other compensation, expenses and benefits, including taxes levied thereon, of all persons at or below the level of General Manager engaged in the operation, maintenance and security of the Property, and costs of training, uniforms, and employee enrichment for such persons; (ix) the costs of operation, repair, maintenance and replacement of all systems and equipment (and components thereof) of the Property; (x) the cost of janitorial, alarm, security and other services, replacement of wall and floor coverings, ceiling tiles and fixtures in Common Areas, maintenance and replacement of curbs and walkways, repair to roofs and re-roofing; (xi) rental or acquisition costs of supplies, tools, equipment, materials and personal property used in the maintenance, operation and repair of the Property; (xii) the cost of capital improvements or any other items that are (A) reasonably calculated to reduce current or future Expenses or (B) required under any Law which was not applicable to the Property as of the Commencement Date; (xiii) the cost of tenant-relation programs reasonably established by Landlord; and (xiv) payments under any existing or future reciprocal easement agreement, transportation management agreement, cost-sharing agreement or other covenant, condition, restriction or similar instrument affecting the Property.

Notwithstanding the foregoing, Expenses shall not include: (a) capital expenditures not described in clauses (xi) or (xii) above (in addition, any capital expenditure shall be included in Expenses only if paid or accrued after the Base Year and shall be amortized over the reasonable life of such expenditures in accordance with such reasonable life and amortization schedules as shall be determined by Landlord in accordance with sound real estate management and accounting principles for commercial office buildings, with interest on the unamortized amount at one percent (1%) in excess of the Wall Street Journal prime lending rate announced from time to time); (b) depreciation; (c) principal payments of mortgage or other non-operating debts of Landlord; (d) the cost of any items for which Landlord is reimbursed by insurance proceeds, condemnation awards, a tenant of the Building (outside of such tenant's Expense payments), or otherwise to the extent so reimbursed; (e) costs of leasing space in the Building, including brokerage commissions, lease concessions, rental abatements and construction allowances granted to specific tenants; (f) costs of selling, financing or refinancing the Building; (g) fines, penalties or interest resulting from late payment of Taxes or Expenses; (h) organizational expenses of creating or operating the entity that constitutes Landlord; (i) damages paid to Tenant hereunder or to other tenants of the Building under their respective leases; (j) advertising costs; (k) the cost of providing any service directly to and paid directly by any tenant (outside of such tenant's Expense payments); (l) ground lease payments (if any); (m) costs incurred by Landlord due to the violation by Landlord or any tenant of the terms and conditions of any lease of space in the Building or any law, code, regulation, ordinance or the like that would not have been incurred but for such violation; (n) any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord (other than in the Parking Facility for the Building); (o) bad debt expenses and interest, principal, points and fees on debts or amortization on any ground lease, mortgage or mortgages or any other debt instrument encumbering the Building (including the real property on which the Building is situated); (p) costs, including permit, license and inspection costs, incurred with respect to the installation of other tenants' or occupants' improvements (i.e. as opposed to the performance of Landlord's maintenance and repair obligations) or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants in the Building; (q) any costs expressly excluded from Expenses elsewhere in this Lease; (r) rentals and other related expenses for leasing an HVAC system, elevators, or other items (except when needed in connection with normal repairs and maintenance of the Building) which if purchased, rather than rented, would constitute a capital improvement not included in Expenses pursuant to this Lease; (s) depreciation, amortization and interest payments, except as specifically included in Expenses pursuant to the terms of this Lease and except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party, where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life; (t) expenses in connection with services or other benefits which are not offered to Tenant or for which Tenant is charged for directly but which are provided to another tenant or occupant of the Building, without charge; (u) electric power costs or other utility costs for which any tenant directly contracts with the local public service company; (v) costs (including in connection therewith all attorneys' fees and costs of settlement, judgments and/or payments in lieu thereof) arising from claims, disputes or potential disputes in connection with potential or actual claims, litigation or arbitrations pertaining to another tenant of the Building; (w) costs incurred in connection with the original construction or any future expansion of the Building or Project; (x) costs of correcting defects in or inadequacy of the initial design or construction of the Building or any future expansion of the Building or Project; (y) costs incurred to comply with Laws relating to the removal of hazardous materials or to remove, remedy, treat or contain any hazardous material; (z) travel expenses; (aa) charitable or political contributions, and (bb) the cost of purchasing or leasing art work.

If, during any portion of the Base Year or any Expense Year, the Building is not 100% occupied (or a service provided by Landlord to Tenant is not provided by Landlord to a tenant that provides such service itself, or any tenant of the Building is entitled to free rent, rent abatement or the like), Expenses for such year shall be determined as if the Building had been 100% occupied (and all services provided by Landlord to Tenant had been provided by Landlord to all tenants, and no tenant of the Building had been entitled to free rent, rent abatement or the like) during such portion of such year.

4.2.3 "**Taxes**" means all federal, state, county or local governmental or municipal taxes, fees, charges, assessments, levies, licenses or other impositions, whether general, special, ordinary or extraordinary, that are paid or accrued during the Base Year or any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing or operation of the Property. Taxes shall include (a) real estate taxes; (b) general and special assessments; (c) transit taxes instituted within the geographic area of which the Building is a part; (d) leasehold taxes; (e) personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems, appurtenances, furniture and other personal property used in connection with the Property; (f) any tax on the rent, right to rent or other income from any portion of the Property or as against the business of leasing any portion of the Property; (g) any assessment, tax, fee, levy or charge imposed by any governmental agency, or by any non-governmental entity pursuant to any private cost-sharing agreement, in order to fund the provision or enhancement of any fire-protection, street-, sidewalk- or road-maintenance, refuse-removal or other service that is (or, before the enactment of Proposition 13, was) normally provided by governmental agencies to property owners or occupants without charge (other than through real property taxes); and (h) payments in lieu of taxes under any tax increment financing agreement, abatement agreement, agreement to construct improvements, or other agreement with any governmental body or agency or taxing authority. Any costs and expenses (including reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Taxes shall be included in Taxes for the year in which they are incurred (provided that Tenant will be entitled to the benefit of any decrease in Taxes). Notwithstanding any contrary provision hereof, Taxes shall exclude (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, transfer taxes, estate taxes, federal and state income taxes, and other taxes to the extent (x) applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Property), or (y) measured solely by the square footage, rent, fees, services, tenant allowances or similar amounts, rights or obligations described or provided in or under any particular lease, license or similar agreement or transaction at the Building; (ii) any Expenses, and (iii) any items required to be paid or reimbursed by Tenant under Section 4.5.

4.3 **Allocation.** Landlord, in its reasonable discretion, may equitably allocate Expenses among office, retail or other portions or occupants of the Property. If Landlord incurs Expenses or Taxes for the Property together with another property, Landlord, in its reasonable discretion, shall equitably allocate such shared amounts between the Property and such other property.

4.4 **Calculation and Payment of Expense Excess and Tax Excess.**

4.4.1 **Statement of Actual Expenses and Taxes; Payment by Tenant .** By April 1st of each calendar year (or as soon thereafter as possible), Landlord shall give to Tenant a statement (the "**Statement**") setting forth the actual Expenses, Taxes, Expense Excess and Tax Excess for such Expense Year. If the amount paid by Tenant for such Expense Year pursuant to Section 4.4.2 is less than the sum of Tenant's Share of the actual Expense Excess plus Tenant's Share of the actual Tax Excess (as such amounts are set forth in such Statement), Tenant shall pay Landlord the amount of such underpayment within thirty (30) days of Landlord's bill therefor. If the amount paid by Tenant for such Expense Year pursuant to Section 4.4.2 is more than the sum of Tenant's Share of the actual Expense Excess plus Tenant's Share of the actual Tax Excess (as such amounts are set forth in such Statement), Tenant shall receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after delivery of such Statement. Any failure of Landlord to timely deliver the Statement for any Expense Year shall not diminish either party's rights under this Section 4.

4.4.2 **Statement of Estimated Expenses and Taxes.** Landlord shall give to Tenant, for each Expense Year, a statement (the "**Estimate Statement**") setting forth Landlord's reasonable estimates of the Expenses, Taxes, Expense Excess (the "**Estimated Expense Excess**") and Tax Excess (the "**Estimated Tax Excess**") for such Expense Year. Upon receiving an Estimate Statement, Tenant shall pay, with its next installment of Base Rent, an amount equal to the excess of (a) the amount obtained by multiplying (i) the sum of Tenant's Share of the Estimated Expense Excess plus Tenant's Share of the Estimated Tax Excess (as such amounts are set forth in such Estimate Statement), by (ii) a fraction, the numerator of which is the number of months that have elapsed in the applicable Expense Year (including the month of such payment) and the denominator of which is 12, over (b) any amount previously paid by Tenant for such Expense Year pursuant to this Section 4.4.2. Until Landlord delivers a new Estimate Statement (which Landlord may do at any time), Tenant shall pay monthly, with the monthly Base Rent installments, an amount equal to one-twelfth (1/12) of the sum of Tenant's Share of the Estimated Expense Excess plus Tenant's Share of the Estimated Tax Excess, as such amounts are set forth in the previous Estimate Statement. Any failure of Landlord to timely deliver any Estimate Statement shall not diminish Landlord's rights to receive payments and revise any previous Estimate Statement under this Section 4.

4.4.3 **Retroactive Adjustment of Taxes .** Notwithstanding any contrary provision hereof, if, after Landlord's delivery of any Statement, an increase or decrease in Taxes occurs for the applicable Expense Year or for the Base Year (whether by reason of reassessment, error, or otherwise), Taxes for such Expense Year or the Base Year, as the case may be, and the Tax Excess for such Expense Year shall be retroactively adjusted. If, as a result of such adjustment, it is determined that Tenant has under- or overpaid Tenant's Share of such Tax Excess, Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the Rent then or next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Tenant shall pay Landlord the amount of such underpayment, or Landlord shall pay Tenant the amount of such overpayment (less any Rent due), within 30 days after such adjustment is made.

4.5 **Charges for Which Tenant Is Directly Responsible.** Notwithstanding any contrary provision hereof, Tenant, upon demand, shall pay (or if paid by Landlord, reimburse Landlord for) each of the following to the extent levied against Landlord or Landlord's property: (a) any tax based upon or measured by (i) the cost or value of Tenant's fixtures, equipment, furniture or other personal property, or (ii) the cost or value of the Leasehold Improvements (defined in Section 7.1) to the extent such cost or value exceeds that of a Building-standard build-out; (b) any rent tax, sales tax, service tax, transfer tax, value added tax, use tax, business tax, gross income tax, gross receipts tax, or other tax, assessment, fee, levy or charge measured solely by the square footage, Rent, services, tenant allowances or similar amounts, rights or obligations described or provided in or under this Lease; (c) any tax assessed upon the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises; and (d) any tax assessed on this transaction or on any document to which Tenant is a party that creates an interest or estate in the Premises.

4.6 **Books and Records.** Within 180 days after receiving any Statement (the "**Review Notice Period**"), Tenant may give Landlord notice ("**Review Notice**") stating that Tenant elects to review Landlord's calculation of the Expense Excess and/or Tax Excess for the Expense Year to which such Statement applies. Within a reasonable time after receiving a timely Review Notice (and, at Landlord's option, an executed confidentiality agreement as described below), Landlord shall deliver to Tenant, or make available for inspection at a location reasonably designated by Landlord, copies of such documents and records. Within 60 days after such documents and records are made available to Tenant (the "**Objection Period**"), Tenant may deliver to Landlord notice (an "**Objection Notice**") stating with reasonable specificity any objections to the Statement, in which event Landlord and Tenant shall work together in good faith to resolve Tenant's objections. Tenant may not deliver more than one Review Notice or more than one Objection Notice with respect to any Expense Year. If Tenant fails to give Landlord a Review Notice before the expiration of the Review Notice Period or fails to give Landlord an Objection Notice before the expiration of the Objection Period, Tenant shall be deemed to have approved the Statement. Notwithstanding any contrary provision hereof, Tenant may not object to Expenses or Taxes for the Base Year, other than in connection with the first review for an Expense Year performed by Tenant pursuant to this Section 4.6. If Tenant retains an agent to review Landlord's records, the agent must be with a CPA firm licensed to do business in the State of California and its fees shall not be contingent, in whole or in part, upon the outcome of the review. Tenant shall be responsible for all costs of such review. However, notwithstanding the foregoing, if Landlord and Tenant determine that Expenses for the Building for the year in question were less than stated by more than 5%, Landlord, within 30 days after its receipt of paid invoices therefor from Tenant, shall reimburse Tenant for the reasonable amounts paid by Tenant to third parties in connection with such review by Tenant. The records and any related information obtained from Landlord shall be treated as confidential, and as applicable only to the Premises, by Tenant, its auditors, consultants, and any other parties reviewing the same on behalf of Tenant (collectively, "**Tenant's Auditors**"). Before making any records available for review, Landlord may require Tenant and Tenant's Auditors to execute a reasonable confidentiality agreement, in which event Tenant shall cause the same to be executed and delivered to Landlord within 30 days after receiving it from Landlord. Notwithstanding any contrary provision hereof, Tenant may not examine Landlord's records or dispute any Statement if any Rent remains unpaid past its due date (after the expiration of applicable notice and cure periods). If, for any Expense Year, Landlord and Tenant determine that the sum of Tenant's Share of the actual Expense Excess plus Tenant's Share of the actual Tax Excess is less or more than the amount reported, Tenant shall receive a credit in the amount of its overpayment against Rent then or next due hereunder, or pay Landlord the amount of its underpayment with the Rent next due hereunder; provided, however, that if this Lease has expired or terminated and Tenant has vacated the Premises, Landlord shall pay Tenant the amount of its overpayment (less any Rent due), or Tenant shall pay Landlord the amount of its underpayment, within 30 days after such determination.

4.7 Notwithstanding anything above to the contrary, Tenant shall not be responsible for Tenant's Share of any Expense Excess or Tax Excess attributable to any Expense Year which was first billed to Tenant more than two (2) years after the date (the "**Cutoff Date**") which is the earlier of (i) the expiration of the applicable Expense Year or (ii) the Expiration Date of this Lease, except that Tenant shall be responsible for Tenant's Share of any Expense Excess levied by any governmental authority or by any public utility company at any time following the applicable Cutoff Date which are attributable to any calendar year occurring prior to such Cutoff Date, so long as Landlord delivers to Tenant a bill and supplemental statement for such amounts within ninety (90) days following Landlord's receipt of the applicable bill therefor.

5 USE; COMPLIANCE WITH LAWS.

5.1 Tenant shall not (a) use the Premises for any purpose other than the Permitted Use, or (b) do anything in or about the Premises that violates any of the Rules and Regulations, damages the reputation of the Project, interferes with, injures or annoys other occupants of the Project, or constitutes a nuisance. Tenant, at its expense, shall comply with all Laws relating to (i) the operation of its business at the Project, (ii) the use, condition, configuration or occupancy of the Premises for Tenant's particular use, or (iii) the Building systems located in or exclusively serving the Premises. If, in order to comply with any such Law, Tenant must obtain or deliver any permit, certificate or other document evidencing such compliance, Tenant shall provide a copy of such document to Landlord promptly after obtaining or delivering it. If a change to any Common Area, the Building structure, or any Building system located outside of and not exclusively serving the Premises becomes required under Law (or if any such requirement is enforced) as a result of any Tenant-Insured Improvement (defined in Section 10.2.2), the installation of any trade fixture, or any particular use of the Premises (as distinguished from general office use), then Tenant, upon demand, shall (x) at Landlord's option, either make such change at Tenant's cost or pay Landlord the cost of making such change, and (y) pay Landlord a coordination fee equal to 5% of the cost of such change. As used herein, "**Law**" means any existing or future law, ordinance, regulation or requirement of any governmental authority having jurisdiction over the Project or the parties.

5.2 Landlord, at its sole cost and expense (except as properly included in Expenses) shall be responsible for correcting any violations of Law relating to the portions of the Project outside of the Premises, provided that compliance with such applicable Laws is not the responsibility of Tenant under Section 5.1 above. Notwithstanding the foregoing, Landlord shall have the right to pursue its rights under any tenant leases in the Building with respect to a violation in any other tenant premises and to contest any alleged violation in good faith, including, without limitation, the right to apply for and obtain a waiver or deferment of compliance, the right to assert any and all defenses allowed by law, the right to appeal any decisions, judgments or rulings to the fullest extent permitted by law. Landlord, after the exhaustion of any and all rights to appeal or contest, will make all repairs, additions, alterations or improvements necessary to comply with the terms of any final order or judgment, provided that if Landlord elects not to contest any alleged violation, Landlord will make all repairs, additions, alterations or improvements necessary to comply with the notice of violation.

6 SERVICES.

6.1 **Standard Services.** Landlord shall provide the following services on all days (unless otherwise stated below): (a) subject to limitations imposed by Law, customary (for office use) heating, ventilation and air conditioning ("**HVAC**") in season during Building HVAC Hours; (b) electricity supplied by the applicable public utility; (c) water supplied by the applicable public utility for use in the Premises and the lavatories and any drinking facilities located in Common Areas within the Building; (d) janitorial services to the Premises, except on weekends and Holidays; and (e) elevator service (subject to scheduling by Landlord, and payment of Landlord's standard usage fee, for any freight service).

6.2 **Above-Standard Use.** Landlord shall provide HVAC service outside Building HVAC Hours if Tenant gives Landlord such prior notice and pays Landlord such hourly cost per zone as Landlord may require. The current charge for non-Building HVAC Hours, which are subject to change at any time after the initial Lease Term to Landlord's then prevailing rate, is $3.80 per zone per hour. Tenant shall not, without Landlord's prior consent, use equipment that may affect the temperature maintained by the air conditioning system or consume above-Building-standard amounts of any water furnished for the Premises by Landlord pursuant to Section 6.1. If Tenant's consumption of electricity or water exceeds the rate which is standard for the Building, Tenant shall pay Landlord, within thirty (30) days following receipt of a bill therefor, the cost of such excess consumption at the rates charged for such services by the local public utility or agency, as the case may be, furnishing the same, including any costs of installing, operating and maintaining any equipment that is installed in order to supply or measure such excess electricity or water. For purposes of the preceding sentence, any consumption of electricity in a computer server room shall be deemed to exceed the standard rate for the Building. The connected electrical load of Tenant's incidental-use equipment shall not exceed the Building-standard electrical design load, and Tenant's electrical usage shall not exceed the capacity of the feeders to the Project or the risers or wiring installation.

6.3 **Interruption.** Subject to Section 11, any failure to furnish, delay in furnishing, or diminution in the quality or quantity of any service resulting from any application of Law, failure of equipment, performance of maintenance, repairs, improvements or alterations, utility interruption, or event of Force Majeure (each, a "**Service Interruption**") shall not render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder. Notwithstanding the foregoing, if all or a material portion of the Premises is made untenantable or inaccessible for more than three (3) consecutive business days after notice from Tenant to Landlord by a Service Interruption that (a) does not result from a Casualty (defined in Section 11), a Taking (defined in Section 13) or an Act of Tenant (defined in Section 10.1), and (b) can be corrected through Landlord's reasonable efforts, then, as Tenant's sole remedy, Monthly Rent shall abate for the period beginning on the day immediately following such 3-business-day period and ending on the day such Service Interruption ends, but only in proportion to the percentage of the rentable square footage of the Premises made untenantable or inaccessible and not occupied by Tenant.

7 REPAIRS AND ALTERATIONS.

7.1 **Repairs.** Subject to Section 11, Tenant, at its expense, shall perform all maintenance and repairs (including replacements) to the interior of the Premises, and keep the Premises in as good condition and repair as existed when Tenant took possession and as thereafter improved, except for reasonable wear and tear, casualty and repairs that are Landlord's express responsibility hereunder. Tenant's maintenance and repair obligations shall include (a) all leasehold improvements in the Premises, whenever and by whomever installed or paid for, including any Tenant Improvements, any Alterations (defined in Section 7.2), and any leasehold improvements installed pursuant to any prior lease, but excluding the Base Building (the "**Leasehold Improvements**"); (b) all supplemental heating, ventilation and air conditioning units, kitchens (including hot water heaters, dishwashers, garbage disposals, insta-hot dispensers, and plumbing) and similar facilities exclusively serving the Premises, whether located inside or outside of the Premises, and whenever and by whomever installed or paid for; and (c) all Lines (defined in Section 23) and trade fixtures. Notwithstanding the foregoing, Landlord may, at its option, perform such maintenance and repairs on Tenant's behalf, in which case Tenant shall pay Landlord, within thirty (30) days following Tenant's receipt of a bill therefor, the cost of such work plus a coordination fee in the amount of 5% of the cost of such work. Landlord shall maintain in first-class condition and repair and in accordance with all Laws, (i) the roof and exterior walls and windows of the Building, (ii) the Base Building, and (iii) the Common Areas. As used herein, "**Base Building**" means the structural portions of the Building, together with all mechanical (including HVAC), electrical, plumbing and fire/life-safety systems serving the Building in general, whether located inside or outside of the Premises. During any required repairs, Landlord will use commercially reasonable efforts to minimize or eliminate interference with Tenant's use or access to the Premises or Parking Facility. In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, for three (3) consecutive business days (the "**Eligibility Period**") as a result of (1) Landlord's performance of any repair, maintenance or alteration to the Building or Project after the Commencement Date, or (2) any failure by Landlord (and/or Landlord's agents, contractors or employees) to provide access to the Premises or the Parking Facility (or reasonable replacement accommodation), then Tenant's obligation to pay Rent shall be abated or reduced, as the case may be, from and after the first (1st) day following the Eligibility Period and continuing until such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable square feet of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable square feet of the Premises; provided, however, that Tenant shall only be entitled to such abatement of Rent if the matter described in clauses (1) or (2) of this sentence is not caused by Tenant's gross negligence or willful misconduct. To the extent Tenant shall be entitled to abatement of Rent because of damage or destruction pursuant to Section 11 or a taking pursuant to Section 13, then the Eligibility Period shall not be applicable.

7.2 **Alterations.** Tenant may not make any improvement, alteration, addition or change to the Premises or to any mechanical, plumbing or HVAC facility or other system serving the Premises (an "**Alteration**") without Landlord's prior consent, which consent shall be requested by Tenant not less than 30 days before commencement of work and shall not be unreasonably withheld, conditioned or delayed by Landlord. Notwithstanding the foregoing, Landlord's prior consent shall not be required for any Alteration that is decorative only (*e.g.,* carpet installation or painting) and not visible from outside the Premises, provided that Landlord receives 10 business days' prior notice. For any Alteration, (a) Tenant, before beginning work, shall deliver to Landlord, and obtain Landlord's approval (not to be unreasonably withheld, conditioned or delayed) of, plans and specifications; (b) Landlord, in its discretion, may require Tenant to obtain security for performance satisfactory to Landlord; (c) Tenant shall deliver to Landlord "as built" drawings (in CAD format, if requested by Landlord), completion affidavits, full and final lien waivers, and all governmental approvals; and (d) Tenant shall pay Landlord upon demand (i) Landlord's reasonable out-of-pocket expenses incurred in reviewing the work, and (ii) a coordination fee equal to 5% of the cost of the work; provided, however, that this clause (d) shall not apply to any Tenant Improvements.

7.3 **Tenant Work.** Before beginning any repair or Alteration or any work affecting Lines (collectively, "**Tenant Work**"), Tenant shall deliver to Landlord, and obtain Landlord's approval of (not to be unreasonably withheld, conditioned or delayed), (a) names of contractors, subcontractors, mechanics, laborers and materialmen; (b) evidence of contractors' and subcontractors' insurance; and (c) any required governmental permits. Tenant shall perform all Tenant Work (i) in a good and workmanlike manner using materials of at least Building-standard quality; (ii) in compliance with any approved plans and specifications, all Laws, the National Electric Code, and Landlord's reasonable and non-discriminatory construction rules and regulations; and (iii) in a manner that does not impair the Base Building. If, as a result of any Tenant Work, Landlord becomes required under Law to perform any inspection, give any notice, or cause such Tenant Work to be performed in any particular manner, Tenant shall comply with such requirement and promptly provide Landlord with reasonable documentation of such compliance. Landlord's approval of Tenant's plans and specifications shall not relieve Tenant from any obligation under this Section 7.3. In performing any Tenant Work, Tenant shall not use contractors, services, labor, materials or equipment that, in Landlord's reasonable judgment, would disturb labor harmony with any workforce or trades engaged in performing other work or services at the Project.

8 LANDLORD'S PROPERTY. All Leasehold Improvements shall become Landlord's property upon installation and without compensation to Tenant. Notwithstanding the foregoing, if Landlord, by written notice delivered to Tenant concurrently with Landlord's approval of the same, identifies any Tenant-Insured Improvements (other than any supplemental HVAC unit, which shall be governed by Section 24.5) which Landlord will require Tenant to remove at the end of the Term, Tenant shall, at Tenant's expense, and except as otherwise notified by Landlord, remove such Tenant-Insured Improvements, repair any resulting damage to the Premises or Building, and restore the affected portion of the Premises to its configuration and condition existing before the installation of such Tenant-Insured Improvements. If Tenant fails to timely perform any work required under the preceding sentence, Landlord may perform such work at Tenant's expense.

9 LIENS. Tenant shall keep the Project free from any lien arising out of any work performed, material furnished or obligation incurred by or on behalf of Tenant. Tenant shall remove any such lien within 10 business days after notice from Landlord, and if Tenant fails to do so, Landlord, without limiting its remedies, may pay the amount necessary to cause such removal, whether or not such lien is valid. The amount so paid, together with reasonable attorneys' fees and expenses, shall be reimbursed by Tenant within thirty (30) days following Tenant's receipt of Landlord's demand therefor.

10 INDEMNIFICATION; INSURANCE.

10.1 **Waiver and Indemnification.** Tenant waives all claims against Landlord, its Security Holders (defined in Section 17), Landlord's managing agent(s), their (direct or indirect) owners, and the beneficiaries, trustees, officers, directors, employees and agents of each of the foregoing (including Landlord, the "**Landlord Parties**") for (i) any damage to person or property (or resulting from the loss of use thereof), except to the extent such damage is caused by any negligence, willful misconduct or breach of this Lease of or by any Landlord Party, or (ii) any failure to prevent or control any criminal or otherwise wrongful conduct by any third party or to apprehend any third party who has engaged in such conduct. Tenant shall indemnify, defend, protect, and hold the Landlord Parties harmless from any obligation, loss, claim, action, liability, penalty, damage, cost or expense (including reasonable attorneys' and consultants' fees and expenses) (each, a "**Claim**") that is imposed or asserted by any third party and arises from (a) any cause in, on or about the Premises, or (b) any negligence, willful misconduct or breach of this Lease of or by, Tenant, any party claiming by, through or under Tenant, their (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees, agents, contractors, licensees or invitees (each, an "**Act of Tenant**"), except to the extent such Claim arises from any negligence, willful misconduct or breach of this Lease of or by any Landlord Party. Landlord shall indemnify, defend, protect, and hold Tenant, its (direct or indirect) owners, and their respective beneficiaries, trustees, officers, directors, employees and agents (including Tenant, the "**Tenant Parties**") harmless from any Claim that is imposed or asserted by any third party and arises from any negligence, willful misconduct or breach of this Lease of or by any Landlord Party, except to the extent such Claim arises from any negligence, willful misconduct or breach of this Lease of or by any Tenant Party. The provisions of this Section 10.1 shall survive the expiration or earlier termination of this Lease arising in connection with any event occurring prior to such expiration or termination.

10.2 **Tenant's Insurance.** Tenant shall maintain the following coverages in the following amounts:

10.2.1 Commercial General Liability Insurance covering claims of bodily injury, personal injury and property damage arising out of Tenant's operations and contractual liabilities, including coverage formerly known as broad form, on an occurrence basis, with combined primary and excess/umbrella limits of $3,000,000 each occurrence and $4,000,000 annual aggregate.

10.2.2 Property Insurance covering (i) all office furniture, trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property in the Premises installed by, for, or at the expense of Tenant, and (ii) any Alterations installed by or for the benefit of Tenant after the completion of the Tenant Improvement Work ("**Tenant-Insured Improvements**"). Such insurance shall be written on a special cause of loss form for physical loss or damage, with coverage for any Tenant-Insured Improvements to be for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance, and shall include coverage for damage or other loss caused by fire or other peril, including vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion.

10.2.3 Workers' Compensation statutory limits and Employers' Liability limits of $1,000,000.

10.3 **Form of Policies.** The minimum limits of insurance required to be carried by Tenant shall not limit Tenant's liability. Such insurance shall be issued by an insurance company that has an A.M. Best rating of not less than A-VIII and shall be in form and content reasonably acceptable to Landlord. Tenant's Commercial General Liability Insurance shall (a) name the Landlord Parties and any other party designated by Landlord ("**Additional Insured Parties**") as additional insureds; and (b) be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord is excess and non-contributing with Tenant's insurance. To the extent that it is commercially reasonable for Tenant to do so, Landlord shall be designated as a loss payee with respect to Tenant's Property Insurance on any Tenant-Insured Improvements. Otherwise Landlord shall be designated as a loss payee with respect to that portion of Tenant's Property Insurance proceeds up to the proportionate replacement cost value of the Tenant-Insured Improvements to the replacement cost value of all of Tenant's property insured by such policy. Tenant shall deliver to Landlord, on or before the Commencement Date and at least 15 days before the expiration dates thereof, certificates from Tenant's insurance company on the forms currently designated "ACORD 25" (Certificate of Liability Insurance) and "ACORD 28" (Evidence of Commercial Property Insurance) or the equivalent. Attached to the ACORD 25 (or equivalent) there shall be an endorsement naming the Additional Insured Parties as additional insureds, and attached to the ACORD 28 (or equivalent) there shall be an endorsement designating Landlord as a loss payee with respect to Tenant's Property Insurance as provided in this Section 10.3, and each such endorsement shall be binding on Tenant's insurance company. Upon Landlord's request, Tenant shall deliver to Landlord, in lieu of such certificates, copies of the policies of insurance required to be carried under Section 10.2 showing that the Additional Insured Parties are named as additional insureds and that Landlord is designated as a loss payee with respect to Tenant's Property Insurance as provided in this Section 10.3.

10.4 **Subrogation.** Each party waives, and shall cause its insurance carrier to waive, any right of recovery against the other party, any of its (direct or indirect) owners, or any of their respective beneficiaries, trustees, officers, directors, employees or agents for any loss of or damage to property which loss or damage is (or, if the insurance required hereunder had been carried, would have been) covered by the waiving party's property insurance. For purposes of this Section 10.4 only, (a) any deductible with respect to a party's insurance shall be deemed covered by, and recoverable by such party under, valid and collectable policies of insurance, and (b) any contractor retained by Landlord to install, maintain or monitor a fire or security alarm for the Building shall be deemed an agent of Landlord.

10.5 **Additional Insurance Obligations.** Tenant shall maintain such increased amounts of the insurance required to be carried by Tenant under this Section 10, and such other types and amounts of insurance covering the Premises and Tenant's operations therein, as may be reasonably requested by Landlord, but not in excess of the amounts and types of insurance then being required by landlords of Comparable Buildings.

10.6 **Landlord Insurance**. Landlord shall maintain the following insurance, together with such other insurance coverage as Landlord, in its reasonable judgment, may elect to maintain, the premiums of which shall be included in Expenses: (a) Commercial General Liability insurance applicable to the Property, Building and Common Areas providing, on an occurrence basis, a minimum combined single limit of at least $3,000,000.00; (b) Special Cause of Loss Insurance on the Building (including the Tenant Improvement Work**)** at replacement cost value as reasonably estimated by Landlord; (c) Worker's Compensation insurance to the extent required by Law; and (d) Employers Liability Coverage to the extent required by Law.

11 CASUALTY DAMAGE. With reasonable promptness after discovering any damage to the Premises (other than trade fixtures), or to any Common Area or Building system necessary for access to or tenantability of the Premises, resulting from any fire or other casualty (a "**Casualty**"), Landlord shall notify Tenant of Landlord's reasonable estimate of the time required to substantially complete repair of such damage (the "**Landlord Repairs**"). If, according to such estimate, the Landlord Repairs cannot be substantially completed within 270 days after the date of such Casualty, either party may terminate this Lease upon 60 days' notice to the other party delivered within 10 days after Landlord's delivery of such estimate. Within 90 days after discovering any damage to the Project resulting from any Casualty, Landlord may, whether or not the Premises are affected, terminate this Lease by notifying Tenant if (i) any Security Holder terminates any ground lease or requires that any insurance proceeds be used to pay any mortgage debt; (ii) any damage to Landlord's property is not fully covered by Landlord's insurance policies; (iii) Landlord decides to rebuild the Building or Common Areas so that it or they will be substantially different structurally or architecturally; (iv) the damage occurs during the last 12 months of the Term; or (v) any owner, other than Landlord, of any damaged portion of the Project does not intend to repair such damage. If this Lease is not terminated pursuant to this Section 11, Landlord shall promptly and diligently perform the Landlord Repairs, subject to reasonable delays for insurance adjustment and other events of Force Majeure. The Landlord Repairs shall restore the Premises (other than trade fixtures) and any Common Area or Building system necessary for access to or tenantability of the Premises to substantially the same condition that existed when the Casualty occurred, except for (a) any modifications required by Law or any Security Holder, and (b) any modifications to the Common Areas that are deemed desirable by Landlord, are consistent with the character of the Project, and do not materially impair access to or tenantability of the Premises. Notwithstanding Section 10.4, Tenant shall assign to Landlord (or its designee) all insurance proceeds payable to Tenant under Tenant's insurance required under Section 10.2 with respect to any Tenant-Insured Improvements, and if the estimated or actual cost of restoring any Tenant-Insured Improvements exceeds the insurance proceeds received by Landlord from Tenant's insurance carrier, Tenant shall pay such excess to Landlord within 15 days after Landlord's demand. No Casualty and no restoration performed as required hereunder shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder; provided, however, that if the Premises (other than trade fixtures) or any Common Area or Building system necessary for access to or tenantability of the Premises is damaged by a Casualty, then, during any time that, as a result of such damage, any portion of the Premises is inaccessible or untenantable and is not occupied by Tenant, Monthly Rent shall be abated in proportion to the rentable square footage of such portion of the Premises. If Tenant was entitled to but elected not to exercise its right to terminate the Lease in accordance with the termination rights granted to Tenant herein and Landlord does not substantially complete the repair and restoration of the Premises within 2 months after expiration of the estimated period of time set forth in the Landlord Repairs notice, which period shall be extended to the extent of any Reconstruction Delays (defined below), then Tenant may terminate this Lease by written notice to Landlord within 15 days after the expiration of such period, as the same may be extended. For purposes of this Lease, the term "Reconstruction Delays" shall mean: (i) any delays caused by Tenant; and (ii) any delays caused by events of Force Majeure.

12 NONWAIVER. No provision hereof shall be deemed waived by either party unless it is waived by such party expressly and in writing, and no waiver of any breach of any provision hereof shall be deemed a waiver of any subsequent breach of such provision or any other provision hereof. Landlord's acceptance of Rent shall not be deemed a waiver of any preceding breach of any provision hereof, other than Tenant's failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of such acceptance. No acceptance of payment of an amount less than the Rent due hereunder shall be deemed a waiver of Landlord's right to receive the full amount of Rent due, whether or not any endorsement or statement accompanying such payment purports to effect an accord and satisfaction. No receipt of monies by Landlord from Tenant after the giving of any notice, the commencement of any suit, the issuance of any final judgment, or the termination hereof shall affect such notice, suit or judgment, or reinstate or extend the Term or Tenant's right of possession hereunder.

13 CONDEMNATION. If any substantial part of the Premises, Building or Project is taken for any public or quasi-public use by power of eminent domain or by private purchase in lieu thereof (a "**Taking**") for more than 180 consecutive days, either party may terminate this Lease, except that Tenant may only terminate this Lease by reason of Taking if such Taking shall be so substantial as to materially interfere with Tenant's use and occupancy of the Premises. If more than 25% of the rentable square footage of the Premises is Taken, or access to the Premises is substantially impaired as a result of a Taking, Tenant may terminate this Lease. Any such termination shall be effective as of the date possession must be surrendered to the authority, and the terminating party shall provide termination notice to the other party within 45 days after receiving written notice of such surrender date. Except as provided above in this Section 13, neither party may terminate this Lease as a result of a Taking. Tenant shall not assert, and hereby assigns to Landlord, any claim it may have for compensation because of any Taking; provided, however, that Tenant may file a separate claim for any Taking of Tenant's personal property or any fixtures that Tenant is entitled to remove upon the expiration hereof, and for moving expenses, so long as such claim does not diminish the award available to Landlord or any Security Holder and is payable separately to Tenant. If this Lease is terminated pursuant to this Section 13, all Rent shall be apportioned as of the date of such termination. If a Taking occurs and this Lease is not so terminated, Monthly Rent shall be abated for the period of such Taking in proportion to the percentage of the rentable square footage of the Premises, if any, that is subject to, or rendered inaccessible by, such Taking.

14 ASSIGNMENT AND SUBLETTING.

14.1 **Transfers.** Tenant shall not, without Landlord's prior consent, assign, mortgage, pledge, hypothecate, encumber, permit any lien to attach to, or otherwise transfer this Lease or any interest hereunder, permit any assignment or other transfer hereof or any interest hereunder by operation of law, enter into any sublease or license agreement, otherwise permit the occupancy or use of any part of the Premises by any persons other than Tenant and its employees and contractors, or permit a Change of Control (defined in Section 14.6) to occur (each, a "**Transfer**"). If Tenant desires Landlord's consent to any Transfer, Tenant shall provide Landlord with (i) notice of the terms of the proposed Transfer, including its proposed effective date (the "**Contemplated Effective Date**"), a description of the portion of the Premises to be transferred (the "**Contemplated Transfer Space**"), a calculation of the Transfer Premium (defined in Section 14.3), and a copy of all existing executed and/or proposed documentation pertaining to the proposed Transfer, and (ii) current financial statements of the proposed transferee (or, in the case of a Change of Control, of the proposed new controlling party(ies)) certified by an officer or owner thereof and any other information reasonably required by Landlord in order to evaluate the proposed Transfer (collectively, the "**Transfer Notice**"). Within 30 days after receiving the Transfer Notice, Landlord shall notify Tenant of (a) its consent to the proposed Transfer, (b) its refusal to consent to the proposed Transfer, or (c) its exercise of its rights under Section 14.4. Any Transfer made without Landlord's prior consent shall, at Landlord's option, be void and shall, at Landlord's option, constitute a Default (defined in Section 19). Tenant shall pay Landlord a fee of $1,500.00 for Landlord's review of any proposed Transfer, whether or not Landlord consents to it.

14.2 **Landlord's Consent.** Subject to Section 14.4, Landlord shall not unreasonably withhold its consent to any proposed Transfer. Without limiting other reasonable grounds for withholding consent, it shall be deemed reasonable for Landlord to withhold its consent to a proposed Transfer if:

14.2.1 The proposed transferee is not a party of reasonable financial strength in light of the responsibilities to be undertaken in connection with the Transfer on the date the Transfer Notice is received; or

14.2.2 The proposed transferee has a character or reputation or is engaged in a business that is not consistent with the quality of the Building or the Project; or

14.2.3 The proposed transferee is a governmental entity or a nonprofit organization, provided that Landlord shall not withhold consent solely for such reason if Landlord has previously leased space in the Building or Project to a governmental entity or a nonprofit organization for that are substantially similar to the use proposed by Tenant's proposed transferee; or

14.2.4 The proposed transferee or any of its Affiliates, on the date the Transfer Notice is received, leases or occupies (or, at any time during the 3-month period ending on the date the Transfer Notice is received, has negotiated with Landlord to lease) space in the Project, unless Landlord is unable to provide the amount of space required by such proposed transferee.

Notwithstanding any contrary provision hereof, (a) if Landlord consents to any Transfer pursuant to this Section 14.2 but Tenant does not enter into such Transfer within six (6) months thereafter, such consent shall no longer apply and such Transfer shall not be permitted unless Tenant again obtains Landlord's consent thereto pursuant and subject to the terms of this Section 14; and (b) if Landlord unreasonably withholds its consent under this Section 14.2, Tenant's sole remedies shall be contract damages (subject to Section 20) or specific performance, and Tenant waives all other remedies, including any right to terminate this Lease.

14.3 **Transfer Premium.** If Landlord consents to a Transfer (other than a Change of Control), Tenant shall pay Landlord an amount equal to 50% of any Transfer Premium (defined below). As used herein, "**Transfer Premium**" means (a) in the case of an assignment, any consideration (including payment for Leasehold Improvements) paid by the assignee for such assignment, and (b) in the case of a sublease, license or other occupancy agreement, for each month of the term of such agreement, the amount by which all rent and other consideration paid by the transferee to Tenant pursuant to such agreement exceeds the Monthly Rent payable by Tenant hereunder with respect to the Contemplated Transfer Space. Payment of Landlord's share of the Transfer Premium shall be made (x) in the case of an assignment, within 10 business days after Tenant receives the consideration described above, and (y) in the case of a sublease, license or other occupancy agreement, for each month of the term of such agreement, within five (5) business days after Tenant receives the rent and other consideration described above.

14.4 **Landlord's Right to Recapture.** Notwithstanding any contrary provision hereof, except in the case of a Permitted Transfer (defined in Section 14.8), Landlord, by notifying Tenant within 30 days after receiving the Transfer Notice, may terminate this Lease with respect to the Contemplated Transfer Space as of the Contemplated Effective Date. If the Contemplated Transfer Space is less than the entire Premises, then Base Rent, Tenant's Share, and the number of parking spaces to which Tenant is entitled under Section 1.9 shall be deemed adjusted on the basis of the percentage of the rentable square footage of the portion of the Premises retained by Tenant. Upon request of either party, the parties shall execute a written agreement prepared by Landlord memorializing such termination.

14.5 **Effect of Consent.** If Landlord consents to a Transfer, (i) such consent shall not be deemed a consent to any further Transfer, (ii) Tenant shall deliver to Landlord, promptly after execution, an executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, and (iii) Tenant shall deliver to Landlord, upon Landlord's request, a complete statement, certified by an independent CPA or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium. In the case of an assignment, the assignee shall assume in writing, for Landlord's benefit, all of Tenant's obligations hereunder. No Transfer, with or without Landlord's consent, shall relieve Tenant or any guarantor hereof from any liability hereunder. Notwithstanding any contrary provision hereof, Tenant, with or without Landlord's consent, shall not enter into, or permit any party claiming by, through or under Tenant to enter into, any sublease, license or other occupancy agreement that provides for payment based in whole or in part on the net income or profit of the subtenant, licensee or other occupant thereunder.

14.6 **Change of Control.** As used herein, "**Change of Control**" means (a) if Tenant is a closely held professional service firm, the withdrawal or change (whether voluntary, involuntary or by operation of law) of more than 25% of its equity owners within a 12-month period; and (b) in all other cases, any transaction(s) resulting in the acquisition of a Controlling Interest (defined below) in Tenant by one or more parties that neither owned, nor are Affiliates (defined below) of one or more parties that owned, a Controlling Interest in Tenant immediately before such transaction(s). As used herein, "**Controlling Interest**" means control over an entity, other than control arising from the ownership of voting securities listed on a recognized securities exchange. As used herein, "**control**" means the direct or indirect power to direct the ordinary management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise. As used herein, "**Affiliate**" means, with respect to any party, a person or entity that controls, is under common control with, or is controlled by such party.

14.7 **Effect of Default.** If Tenant is in Default, Landlord is irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any transferee under any sublease, license or other occupancy agreement to make all payments under such agreement directly to Landlord (which Landlord shall apply towards Tenant's obligations hereunder) until such Default is cured. Such transferee shall rely upon any representation by Landlord that Tenant is in Default, whether or not confirmed by Tenant.

14.8 **Permitted Transfers.** Notwithstanding any contrary provision hereof, if Tenant is not in Default beyond any applicable notice and cure period, Tenant may, without Landlord's consent pursuant to Section 14.1, assign this Lease or sublet the Premises or any portion thereof to (a) an Affiliate of Tenant (other than pursuant to a merger or consolidation), (b) a successor to Tenant by merger or consolidation, or (c) a successor to Tenant by purchase of all or substantially all of Tenant's assets (a "**Permitted Transfer**"), provided that (i) at least 10 business days before the Transfer, Tenant notifies Landlord of the Transfer and delivers to Landlord any documents or information reasonably requested by Landlord relating thereto, including reasonable documentation that the Transfer satisfies the requirements of this Section 14.7; (ii) in the case of an assignment pursuant to clause (a) or (c) above, the assignee executes and delivers to Landlord, at least 10 business days before the assignment, a commercially reasonable instrument pursuant to which the assignee assumes, for Landlord's benefit, all of Tenant's obligations hereunder (or, if a sublease pursuant to clause (a) or (c) above, the sublessee of a portion of the Premises or Term assumes, in full, the obligation of Tenant with respect to such portion); (iii) in the case of an assignment or sublease pursuant to clause (b) above, (A) the successor entity has a net worth (as determined in accordance with GAAP, but excluding intellectual property and any other intangible assets ("**Net Worth**")) immediately after the Transfer that is not less than Tenant's Net Worth as of the date of execution of this Lease, and (B) if Tenant is a closely held professional service firm, at least 75% of its equity owners existing 12 months before the Transfer are also equity owners of the successor entity; (iv) the transferee is qualified to conduct business in the State of California; and (v) the Transfer is made for a good faith operating business purpose and not in order to evade the requirements of this Section 14.

15 SURRENDER. Upon the expiration or earlier termination hereof, and subject to Sections 8 and 11 and this Section 15, Tenant shall surrender possession of the Premises to Landlord in as good condition and repair as existed when Tenant took possession and as thereafter improved, except for reasonable wear and tear, damage by fire or other casualty (but subject to Tenant's obligations under Section 11) and repairs that are Landlord's express responsibility hereunder. Before such expiration or termination, Tenant, without expense to Landlord, shall (a) remove from the Premises all debris and rubbish and all furniture, equipment, trade fixtures, Lines, free-standing cabinet work, movable partitions and other articles of personal property that are owned or placed in the Premises by Tenant or any party claiming by, through or under Tenant (except for any Lines not required to be removed under Section 23), and (b) repair all damage to the Premises and Building resulting from such removal. If Tenant fails to timely perform such removal and repair, Landlord may do so at Tenant's expense (including storage costs). If Tenant fails to remove such property from the Premises, or from storage, within 30 days after notice from Landlord, any part of such property shall be deemed, at Landlord's option, either (x) conveyed to Landlord without compensation, or (y) abandoned.

16 HOLDOVER. If Tenant fails to surrender the Premises upon the expiration or earlier termination hereof, Tenant's tenancy shall be subject to the terms and conditions hereof; provided, however, that such tenancy shall be a tenancy at sufferance only, for the entire Premises, and Tenant shall pay Monthly Rent (on a per-month basis without reduction for any partial month) at a rate equal to: (a) 125% of the Monthly Rent applicable during the last calendar month of the Term for the first thirty (30) days of such holdover; and (b) 150% of the Monthly Rent applicable during the last calendar month of the Term for any holdover thereafter. Nothing in this Section 16 shall limit Landlord's rights or remedies or be deemed a consent to any holdover. If Landlord is unable to deliver possession of the Premises to a new tenant or to perform improvements for a new tenant as a result of Tenant's holdover, Tenant shall be liable for all resulting damages, including lost profits, incurred by Landlord. Notwithstanding the foregoing, Tenant shall not be liable for damages under the immediately preceding sentence unless: (i) Landlord has entered into a new lease or amendment for the Premises; (ii) Landlord provides Tenant with written notice of the fact that Landlord has entered into such new lease or amendment for the Premises (a "**New Tenancy Notice**"); and (iii) Tenant fails to vacate the Premises by the later to occur of: (a) 30 days after the Expiration Date; or (b) thirty (30) days after Tenant's receipt of the New Tenancy Notice.

17 SUBORDINATION; ESTOPPEL CERTIFICATES. This Lease shall be subject and subordinate to all existing and future ground or underlying leases, mortgages, trust deeds and other encumbrances against the Building or Project, all renewals, extensions, modifications, consolidations and replacements thereof (each, a "**Security Agreement**"), and all advances made upon the security of such mortgages or trust deeds, unless in each case the holder of such Security Agreement (each, a "**Security Holder**") requires in writing that this Lease be superior thereto. Upon any termination or foreclosure (or any delivery of a deed in lieu of foreclosure) of any Security Agreement, Tenant, upon request made in writing by the foreclosing Security Holder, or purchaser or any successor to a Security Holder who acquires title to the Building or Project pursuant to such termination or foreclosure of a Security Agreement (each, a "**Successor Landlord**"), shall attorn, without deduction or set-off, to such Successor Landlord and shall recognize such Successor Landlord as the lessor hereunder provided that such Successor Landlord agrees in such request to comply with the obligations of Landlord pursuant to this Lease and not to disturb Tenant's occupancy (nor permit any such disturbance by anyone claiming any interest in the Premises through the Successor Landlord) so long as Tenant is not in Default hereunder beyond the expiration of the cure period, if any, applicable to such Tenant Default. Within 10 days after Landlord's request, Tenant shall execute such further instruments as Landlord may reasonably deem necessary to evidence the subordination or superiority of this Lease to any Security Agreement, provided that such instrument expressly states that the Successor Landlord pursuant to such Security Agreement shall comply with the obligations of Landlord pursuant to this Lease and not disturb Tenant's occupancy (nor permit any such disturbance by anyone claiming any interest in the Premises through the Successor Landlord) as long as Tenant is not in Default hereunder beyond the expiration of the cure period, if any, applicable to such Tenant Default. Within 10 business days after Landlord's request, Tenant shall execute and deliver to Landlord a commercially reasonable estoppel certificate in favor of such parties as Landlord may reasonably designate, including current and prospective Security Holders and prospective purchasers, which estoppel certificate shall be limited to factual information within Tenant's actual knowledge only.

18 ENTRY BY LANDLORD. At all reasonable times and upon reasonable notice to Tenant, or in an emergency, Landlord may enter the Premises to (i) inspect the Premises; (ii) show the Premises to prospective purchasers, current or prospective Security Holders or insurers, or, during the last 9 months of the Term (or while an uncured Default exists), prospective tenants; (iii) post notices of non-responsibility; or (iv) perform maintenance, repairs or alterations. At any time and without notice to Tenant, Landlord may enter the Premises to perform required services. If reasonably necessary, Landlord may temporarily close any portion of the Premises to perform maintenance, repairs or alterations. In an emergency, Landlord may use any means it deems proper to open doors to and in the Premises. No entry into or closure of any portion of the Premises pursuant to this Section 18 shall render Landlord liable to Tenant, constitute a constructive eviction, or excuse Tenant from any obligation hereunder. In exercising the entry rights set forth in this Section 18, Landlord will endeavor to minimize, as reasonably practicable, the interference with Tenant's business.

19 DEFAULTS; REMEDIES.

19.1 **Events of Default.** The occurrence of any of the following shall constitute a "**Default**":

19.1.1 Any failure by Tenant to pay any Rent when due unless such failure is cured within five (5) business days after notice; or

19.1.2 Except where a specific time period is otherwise set forth for Tenant's cure herein (in which event Tenant's failure to cure within such time period shall be a Default), and except as otherwise provided in this Section 19.1, any breach by Tenant of any other provision hereof where such breach continues for 30 days after notice from Landlord; provided that if such breach cannot reasonably be cured within such 30-day period, Tenant shall not be in Default as a result of such breach if Tenant diligently commences such cure within such period, thereafter diligently pursues such cure, and completes such cure within 60 days after Landlord's notice; or

19.1.3 Tenant becomes in breach of Section 25.3.

The notice periods provided herein are in lieu of, and not in addition to, any notice periods provided by Law, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

19.2 **Remedies Upon Default.** Upon any Default, Landlord shall have, in addition to any other remedies available to Landlord at law or in equity (which shall be cumulative and nonexclusive), the option to pursue any one or more of the following remedies (which shall be cumulative and nonexclusive) without any notice or demand:

19.2.1 Landlord may terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy it may have for possession or arrearages in Rent, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, without being liable for prosecution or any claim or damages therefor; and Landlord may recover from Tenant the following:

(a) The worth at the time of award of the unpaid Rent which had been earned at the time of such termination; plus

(b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that Tenant proves could be reasonably avoided; plus

(d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations hereunder or which in the ordinary course of things would be likely to result therefrom, including brokerage commissions, advertising expenses, expenses of remodeling any portion of the Premises for a new tenant (whether for the same or a different use), and any special concessions made to obtain a new tenant; plus

(e) At Landlord's option, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Law.

As used in Sections 19.2.1(a) and (b), the "**worth at the time of award**" shall be computed by allowing interest at a rate per annum equal to the lesser of (i) the annual "Bank Prime Loan" rate cited in the Federal Reserve Statistical Release Publication G.13(415), published on the first Tuesday of each calendar month (or such other comparable index as Landlord shall reasonably designate if such rate ceases to be published) plus two (2) percentage points, or (ii) the highest rate permitted by Law. As used in Section 19.2.1(c), the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

19.2.2 Landlord shall have the remedy described in California Civil Code § 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover Rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies hereunder, including the right to recover all Rent as it becomes due.

19.2.3 Landlord shall at all times have the rights and remedies (which shall be cumulative with each other and cumulative and in addition to those rights and remedies available under Sections 19.2.1 and 19.2.2, or any Law or other provision hereof), without prior demand or notice except as required by Law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof.

19.3 **Efforts to Relet.** Unless Landlord provides Tenant with express notice to the contrary, no re-entry, repossession, repair, maintenance, change, alteration, addition, reletting, appointment of a receiver or other action or omission by Landlord shall (a) be construed as an election by Landlord to terminate this Lease or Tenant's right to possession, or to accept a surrender of the Premises, or (b) operate to release Tenant from any of its obligations hereunder. Tenant waives, for Tenant and for all those claiming by, through or under Tenant, California Civil Code § 3275 and California Code of Civil Procedure §§ 1174(c) and 1179 and any existing or future rights to redeem or reinstate, by order or judgment of any court or by any legal process or writ, this Lease or Tenant's right of occupancy of the Premises after any termination hereof.

19.4 **Landlord Default.** Except where a specific time period is otherwise set forth for Landlord's cure in this Lease (in which event Landlord's failure to cure within such time period shall be a Default), Landlord shall not be in default hereunder unless it fails, for 30 days after notice from Tenant, to cure any breach by Landlord of its obligations hereunder; provided that if such breach cannot reasonably be cured within such 30-day period, Landlord shall not be in Default as a result of such breach if Landlord diligently commences such cure within such period, and thereafter diligently pursues and completes such cure. Before exercising any remedies for a default by Landlord, Tenant shall give notice and a reasonable time to cure to any Security Holder of which Tenant has been notified.

20 LANDLORD EXCULPATION. Notwithstanding any contrary provision hereof, (a) the liability of the Landlord Parties to Tenant shall be limited to an amount equal to Landlord's interest in the Building; (b) Tenant shall look solely to Landlord's interest in the Building for the recovery of any judgment or award against any Landlord Party; (c) no Landlord Party shall have any personal liability for any judgment or deficiency, and Tenant waives and releases such personal liability on behalf of itself and all parties claiming by, through or under Tenant; and (d) except as provided in Section 16 to the contrary, no Landlord Party or Tenant Party shall be liable for any injury or damage to, or interference with, the other party's business, including loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, or for any form of special or consequential damage.

21 SECURITY DEPOSIT. Concurrently with its execution and delivery hereof, Tenant shall deposit with Landlord the Security Deposit, if any, as security for Tenant's performance of its obligations hereunder. If Tenant breaches any provision hereof, Landlord may, at its option, without notice to Tenant, apply all or part of the Security Deposit to cure such breach and compensate Landlord for any loss or damage caused by such breach. If Landlord so applies any portion of the Security Deposit, Tenant, within three (3) days after demand therefor, shall restore the Security Deposit to its original amount. The Security Deposit is not an advance payment of Rent or measure of damages. Any unapplied portion of the Security Deposit shall be returned to Tenant within 60 days after the latest to occur of (a) the expiration of the Term, (b) Tenant's surrender of the Premises as required hereunder, or (c) determination of the final Rent due from Tenant. Landlord shall not be required to keep the Security Deposit separate from its other accounts.

22 RELOCATION. Landlord, after giving not less than 60 days prior notice, may move Tenant to other space in the Building comparable in size and utility to the Premises (but in no event more than one (1) time during the initial Term). In addition, such other space must: (i) contain similar quality finishes as the Premises, and the same or greater number of work stations, offices (including 2 corner offices), breakrooms and reception areas as are contained in the Premises as of the date Tenant receives Landlord's notice of relocation; (ii) contain an equal or greater amount of rentable square feet as the Premises; and (iii) be located on or above the 7th floor of the Building. In such event, all terms hereof shall apply to the new space, except that Base Rent and Tenant's Share shall not increase as a result of such relocation. Landlord, at its expense, shall provide Tenant with tenant improvements in the new space at least equal in quality to those in the Premises as of the date that Tenant receives Landlord's notice of relocation. Landlord shall reimburse Tenant for Tenant's reasonable moving, re-cabling and stationery-replacement costs. The parties shall execute a written agreement prepared by Landlord memorializing the relocation.

23 COMMUNICATIONS AND COMPUTER LINES. All Lines installed pursuant to this Lease shall be (a) installed in accordance with Section 7; and (b) clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, and the purpose of such Lines (i) every six (6) feet outside the Premises (including the electrical room risers and any Common Areas), and (ii) at their termination points. Landlord may designate specific contractors for work relating to vertical Lines. Sufficient spare cables and space for additional cables shall be maintained for other occupants, as reasonably determined by Landlord. Unless otherwise notified by Landlord, Tenant, at its expense and before the expiration or earlier termination hereof, shall remove all Lines and repair any resulting damage. As used herein, "**Lines**" means all communications or computer wires and cables serving the Premises, whenever and by whomever installed or paid for, including any such wires or cables installed pursuant to any prior lease.

24 PARKING. Tenant may park in the Building's parking facilities (the "**Parking Facility**"), in common with other tenants of the Building, upon the following terms and conditions. Tenant shall not use more than the number of unreserved and/or reserved parking spaces set forth in Section 1.9. Tenant shall pay Landlord, in accordance with Section 3, any fees for the parking spaces described in Section 1.9. Landlord shall not be liable to Tenant, nor shall this Lease be affected, if any parking is impaired by (or any parking charges are imposed as a result of) any Law. Tenant shall pay Landlord any fees, taxes or other charges imposed by any governmental or quasi-governmental agency in connection with the Parking Facility, to the extent such amounts are allocated to Tenant by Landlord based on the number and type of parking spaces Tenant is entitled to use. Tenant shall comply with all rules and regulations established by Landlord from time to time for the orderly operation and use of the Parking Facility, including any sticker or other identification system and the prohibition of vehicle repair and maintenance activities in the Parking Facility. Landlord may, in its discretion, allocate and assign parking passes among Tenant and the other tenants in the Building. Tenant's use of the Parking Facility shall be at Tenant's sole risk, and Landlord shall have no liability for any personal injury or damage to or theft of any vehicles or other property occurring in the Parking Facility or otherwise in connection with any use of the Parking Facility by Tenant or its employees or invitees except as provided in Section 10. Landlord may alter the size, configuration, design, layout or any other aspect of the Parking Facility, and, in connection therewith, temporarily deny or restrict access to the Parking Facility, in each case without abatement of Rent or liability to Tenant; provided that Landlord will use commercially reasonable efforts to provide Tenant with reasonable substitute parking during any closure. Landlord may delegate its responsibilities hereunder to a parking operator, in which case (i) such parking operator shall have all the rights of control reserved herein by Landlord, (ii) Tenant shall enter into a parking agreement with such parking operator, (iii) Tenant shall pay such parking operator, rather than Landlord, any charge established hereunder for the parking spaces, and (iv) Landlord shall have no liability for claims arising through acts or omissions of such parking operator except to the extent caused by Landlord's gross negligence or willful misconduct. Tenant's parking rights under this Section 24 are solely for the benefit of Tenant's employees and invitees and such rights may not be transferred without Landlord's prior consent, except pursuant to a Transfer permitted under Section 14.

25 MISCELLANEOUS.

25.1 **Notices.** No notice, demand, statement, designation, request, consent, approval, election or other communication given hereunder ("**Notice**") shall be binding upon either party unless (a) it is in writing; (b) it is (i) sent by certified or registered mail, postage prepaid, return receipt requested, (ii) delivered by a nationally recognized courier service, or (iii) delivered personally; and (c) it is sent or delivered to the address set forth in Section 1.10 or 1.11, as applicable, or to such other place (other than a P.O. box) as the recipient may from time to time designate in a Notice to the other party. Any Notice shall be deemed received on the earlier of the date of actual delivery or the date on which delivery is refused, or, if Tenant is the recipient and has vacated its notice address without providing a new notice address, three (3) days after the date the Notice is deposited in the U.S. mail or with a courier service as described above.

25.2 **Force Majeure.** If either party is prevented from performing any obligation hereunder by any strike, act of God, war, terrorist act, shortage of labor or materials, governmental action, civil commotion or other cause beyond such party's reasonable control ("**Force Majeure**"), such obligation shall be excused during (and any time period for the performance of such obligation shall be extended by) the period of such prevention; provided, however, that this Section 25.2 shall not (a) permit Tenant to hold over in the Premises after the expiration or earlier termination hereof, or (b) excuse (or extend any time period for the performance of) (i) any obligation to remit money or deliver credit enhancement, (ii) any obligation under Section 10 or 25.3, or (iii) any of Tenant's obligations whose breach would interfere with another occupant's use, occupancy or enjoyment of its premises or the Project or result in any liability on the part of any Landlord Party.

25.3 **Representations and Covenants.** Tenant represents, warrants and covenants that (a) Tenant is, and at all times during the Term will remain, duly organized, validly existing and in good standing under the Laws of the state of its formation and qualified to do business in the state of California; (b) neither Tenant's execution of nor its performance under this Lease will cause Tenant to be in violation of any agreement or Law; (c) Tenant (and any guarantor hereof) has not, and at no time during the Term will have, (i) made a general assignment for the benefit of creditors, (ii) filed a voluntary petition in bankruptcy, (iii) suffered (A) the filing by creditors of an involuntary petition in bankruptcy that is not dismissed within 30 days, (B) the appointment of a receiver to take possession of all or substantially all of its assets, or (C) the attachment or other judicial seizure of all or substantially all of its assets, (iv) admitted in writing its inability to pay its debts as they come due, or (v) made an offer of settlement, extension or composition to its creditors generally; and (d) no party that (other than through the passive ownership of interests traded on a recognized securities exchange) constitutes, owns, controls, or is owned or controlled by Tenant, any guarantor hereof or any subtenant of Tenant is, or at any time during the Term will be, (i) in violation of any Laws relating to terrorism or money laundering, or (ii) among the parties identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists or on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/ofac/tllsdn.pdf or any replacement website or other replacement official publication of such list. Landlord represents, warrants and covenants that (a) Landlord is, and at all times during the Term will remain, duly organized, validly existing and in good standing under the Laws of the state of its formation and qualified to do business in the state of California; (b) neither Landlord's execution of nor its performance under this Lease will cause Landlord to be in violation of any agreement or Law; and (c) no party that (other than through the passive ownership of interests traded on a recognized securities exchange) constitutes, owns, controls, or is owned or controlled by Landlord, is, or at any time during the Term will be, (i) in violation of any Laws relating to terrorism or money laundering, or (ii) among the parties identified on any list compiled pursuant to Executive Order 13224 for the purpose of identifying suspected terrorists or on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/ofac/tllsdn.pdf or any replacement website or other replacement official publication of such list.

25.4 **Signs.** Landlord, at Landlord's cost, shall include Tenant's name in any tenant directory located in the lobby on the first floor of the Building. If any part of the Premises is located on a multi-tenant floor, Landlord, at Tenant's cost, shall provide identifying suite signage for Tenant comparable to that provided by Landlord on similar floors in the Building. Tenant may not install (a) any signs outside the Premises, or (b) without Landlord's prior consent in its sole and absolute discretion, any signs, window coverings, blinds or similar items that are visible from outside the Premises.

25.5 **Supplemental HVAC.** If any supplemental HVAC unit (a "**Unit**") serves the Premises, then (a) Tenant shall pay the costs of all electricity consumed in the Unit's operation, together with the cost of installing a meter to measure such consumption; (b) Tenant, at its expense, shall (i) operate and maintain the Unit in compliance with all applicable Laws and such reasonable rules and procedures as Landlord may impose; (ii) keep the Unit in as good working order and condition as existed upon installation (or, if later, when Tenant took possession of the Premises), subject to normal wear and tear and damage resulting from Casualty; (iii) maintain in effect, with a contractor reasonably approved by Landlord, a contract for the maintenance and repair of the Unit, which contract shall require the contractor, at least once every three (3) months, to inspect the Unit and provide to Tenant a report of any defective conditions, together with any recommendations for maintenance, repair or parts-replacement; (iv) follow all reasonable recommendations of such contractor; and (v) promptly provide to Landlord a copy of such contract and each report issued thereunder; (c) the Unit shall become Landlord's property upon installation and without compensation to Tenant; provided, however, that upon Landlord's request at the expiration or earlier termination hereof, Tenant, at its expense, shall remove the Unit and repair any resulting damage (and if Tenant fails to timely perform such work, Landlord may do so at Tenant's expense); (d) the Unit shall be deemed (i) a Leasehold Improvement (except for purposes of Section 8), and (ii) for purposes of Section 11, part of the Premises; (e) if the Unit exists on the date of mutual execution and delivery hereof, Tenant accepts the Unit in its "as is" condition, without representation or warranty as to quality, condition, fitness for use or any other matter; (f) if the Unit connects to the Building's condenser water loop (if any), then Tenant shall pay to Landlord, as Additional Rent, Landlord's standard one-time fee for such connection and Landlord's standard monthly per-ton usage fee; and (g) if any portion of the Unit is located on the roof, then (i) Tenant's access to the roof shall be subject to such reasonable rules and procedures as Landlord may impose; (ii) Tenant shall maintain the affected portion of the roof in a clean and orderly condition and shall not interfere with use of the roof by Landlord or any other tenants or licensees; and (iii) Landlord may relocate the Unit and/or temporarily interrupt its operation, without liability to Tenant, as reasonably necessary to maintain and repair the roof or otherwise operate the Building.

25.6 **Attorneys' Fees.** In any action or proceeding between the parties, including any appellate or alternative dispute resolution proceeding, the prevailing party may recover from the other party all of its costs and expenses in connection therewith, including reasonable attorneys' fees and costs.

25.7 **Brokers.** Tenant represents to Landlord that it has dealt only with Tenant's Broker as its broker in connection with this Lease. Tenant shall indemnify, defend, and hold Landlord harmless from all claims of any brokers, other than Tenant's Broker, claiming to have represented Tenant in connection with this Lease. Landlord shall indemnify, defend and hold Tenant harmless from all claims of any brokers, including Landlord's Broker, claiming to have represented Landlord in connection with this Lease. Tenant acknowledges that any Affiliate of Landlord that is involved in the negotiation of this Lease is representing only Landlord, and that any assistance rendered by any agent or employee of such Affiliate in connection with this Lease or any subsequent amendment or other document related hereto has been or will be rendered as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant.

25.8 **Governing Law; WAIVER OF TRIAL BY JURY.** This Lease shall be construed and enforced in accordance with the Laws of the State of California. THE PARTIES WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, THE RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, TENANT'S USE OR OCCUPANCY OF THE PREMISES, AND/OR ANY CLAIM FOR INJURY OR DAMAGE OR ANY EMERGENCY OR STATUTORY REMEDY.

25.9 **Waiver of Statutory Provisions.** Each party waives California Civil Code §§ 1932(2), 1933(4) and 1945. Tenant waives (a) any rights under (i) California Civil Code §§ 1932(1), 1941, 1942, 1950.7 or any similar Law, or (ii) California Code of Civil Procedure §§ 1263.260 or 1265.130; and (b) any right to terminate this Lease under California Civil Code § 1995.310.

25.10 **Interpretation.** As used herein, the capitalized term "Section" refers to a section hereof unless otherwise specifically provided herein. As used in this Lease, the terms "herein," "hereof," "hereto" and "hereunder" refer to this Lease and the term "include" and its derivatives are not limiting. Any reference herein to "any part" or "any portion" of the Premises, the Property or any other property shall be construed to refer to all or any part of such property. As used in this Lease in connection with insurance, the term "deductible" includes self-insured retention. Wherever this Lease requires Tenant to comply with any Law, rule, regulation, procedure or other requirement or prohibits Tenant from engaging in any particular conduct, this Lease shall be deemed also to require Tenant to cause each of its employees, licensees, invitees and subtenants, and any other party claiming by, through or under Tenant, to comply with such requirement or refrain from engaging in such conduct, as the case may be. Wherever this Lease requires Landlord to provide a customary service or to act in a reasonable manner (whether in incurring an expense, establishing a rule or regulation, providing an approval or consent, or performing any other act), this Lease shall be deemed also to provide that whether such service is customary or such conduct is reasonable shall be determined by reference to the practices of owners of buildings ("**Comparable Buildings**") that (i) are comparable to the Building in size, age, class, quality and location, and (ii) at Landlord's option, have been, or are being prepared to be, certified under the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system or a similar rating system. Tenant waives the benefit of any rule that a written agreement shall be construed against the drafting party.

25.11 **Entire Agreement.** This Lease sets forth the entire agreement between the parties relating to the subject matter hereof and supersedes any previous agreements (none of which shall be used to interpret this Lease). Tenant acknowledges that in entering into this Lease it has not relied upon any representation, warranty or statement, whether oral or written, not expressly set forth herein. This Lease can be modified only by a written agreement signed by both parties.

25.12 **Other.** Landlord, at its option, may cure any Default, without waiving any right or remedy or releasing Tenant from any obligation, in which event Tenant shall pay Landlord, upon demand, the cost of such cure. If any provision hereof is void or unenforceable, no other provision shall be affected. Submission of this instrument for examination or signature by Tenant does not constitute an option or offer to lease, and this instrument is not binding until it has been executed and delivered by both parties. If Tenant is comprised of two or more parties, their obligations shall be joint and several. Time is of the essence with respect to the performance of every provision hereof in which time of performance is a factor. So long as Tenant performs its obligations hereunder, Tenant shall have peaceful and quiet possession of the Premises, subject to the terms hereof. Landlord may transfer its interest herein, in which event Landlord shall be released from, Tenant shall look solely to the transferee for the performance of, and the transferee shall be deemed to have assumed, all of Landlord's obligations arising hereunder after the date of such transfer (including the return of any Security Deposit if the Security Deposit has been transferred to the transferee) and Tenant shall attorn to the transferee provided the transferee assumes in writing Landlord's obligations hereunder. If Tenant (or any party claiming by, through or under Tenant) pays directly to the provider for any energy consumed at the Property, Tenant, promptly upon request, shall deliver to Landlord (or, at Landlord's option, execute and deliver to Landlord an instrument enabling Landlord to obtain from such provider) any data about such consumption that Landlord, in its reasonable judgment, is required to disclose to a prospective buyer, tenant or Security Holder under California Public Resources Code § 25402.10 or any similar Law. Landlord reserves all rights not expressly granted to Tenant hereunder, including the right to make alterations to the Project; provided that, other than on a temporary basis during the performance of such work, Tenant's use of and access to the Premises and Parking Facilities is not interfered with in an unreasonable manner as a result of such alteration. No rights to any view or to light or air over any property are granted to Tenant hereunder. The expiration or earlier termination hereof shall not relieve either party of any obligation that accrued before, or continues to accrue after, such expiration or termination. This Lease may be executed in counterparts.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed the day and date first above written.

LANDLORD:

TRIZEC WILSHIRE CENTER, LLC, a Delaware limited liability company

By: /s/ Frank Campbell
Name: Frank Campbell
Title: Market Managing Director

TENANT:

CATASYS, INC., a Delaware corporation

By: /s/ Richard A. Anderson
Name: Richard A. Anderson
Title: President
[chairman][president][vice-president]

By: /s/ Susan Etzel
Name: Susan Etzel
Title: CFO
[secretary][assistant secretary][chief financial officer][assistant treasurer]

EXHIBIT A

11601 WILSHIRE BOULEVARD-WELLS FARGO CENTER

OUTLINE OF PREMISES

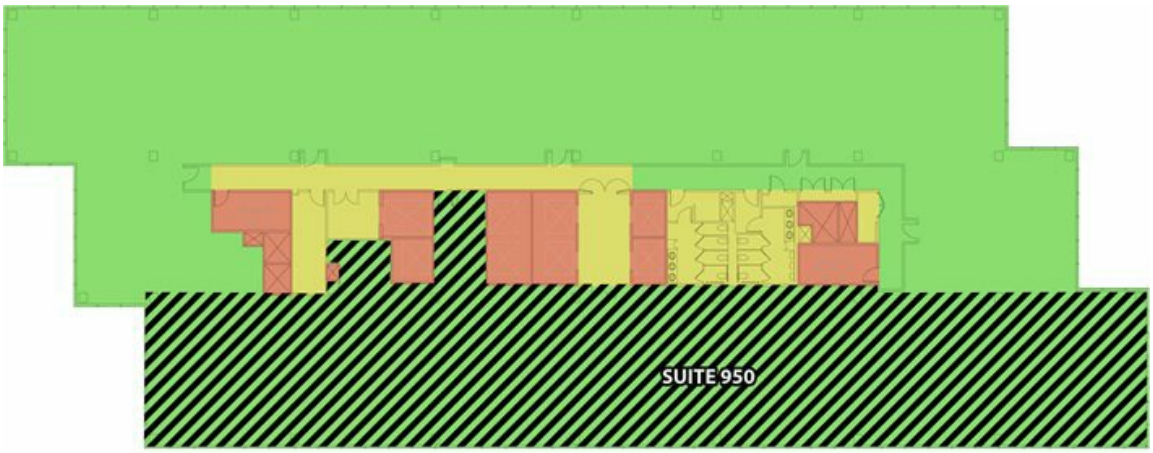

EXHIBIT B

11601 WILSHIRE BOULEVARD-WELLS FARGO CENTER

WORK LETTER

As used in this **Exhibit B** (this "**Work Letter**"), the following terms shall have the following meanings: "**Agreement**" means the Lease of which this Work Letter is a part. "**Tenant Improvements**" means all improvements to be constructed in the Premises pursuant to this Work Letter. "**Tenant Improvement Work**" means the construction of the Tenant Improvements, together with any related work (including demolition) that is necessary to construct the Tenant Improvements.

1 ALLOWANCE.

1.1 **Allowance.** Tenant shall be entitled to a one-time tenant improvement allowance (the "**Allowance**") in the amount of **$245,052.00** ($27.00 per rentable square foot of the Premises) to be applied toward the (i) Allowance Items (defined in Section 1.2 below) and/or (ii) a credit against Base Rent coming due under the Lease from and after the fifth (5^{th}) full calendar month of the Term and/or (iii) the cost of purchasing Lines, signage, furniture, fixtures, and equipment to be used in the Premises by Tenant; provided that the total portion of the Allowance that is applied against the items described in (ii) and (iii) shall not exceed, in the aggregate, **$45,380.00** (i.e., $5.00 per rentable square foot of the Premises). Tenant, by written notice to Landlord (the "**Allowance Notice**") shall advise Landlord of the manner in which Tenant desires to apply the Allowance. Any portion of the Allowance that is applied toward the cost of the Tenant Improvement Work shall be disbursed by Landlord in accordance with Section 1.2 below. Any portion of the Allowance that is applied as a credit against Base Rent shall be applied against the installment of Base Rent for the sixth (6^{th}) full calendar month of the Term and, if necessary, consecutive calendar months thereafter. Any portion of the Allowance that is applied toward the cost of purchasing Lines, signage, furniture, fixtures, and/or equipment to be used in the Premises shall be disbursed to Tenant within 30 days after the later to occur of: (x) receipt of paid invoices from Tenant with respect to Tenant's actual costs of purchasing such items, and (y) the Commencement Date; provided that Tenant shall also be required to provide Landlord the documentation set forth in Section 1.2 below with respect to any items that relate to work of a type for which a mechanics lien could be potentially be filed. Tenant shall be responsible for all costs associated with the Tenant Improvement Work, including the costs of the Allowance Items, to the extent such costs exceed the lesser of (a) the Allowance, or (b) the aggregate amount that Landlord is required to disburse for such purpose pursuant to this Work Letter. Notwithstanding any contrary provision of this Agreement, if Tenant fails to use the entire Allowance by one (1) year after the Commencement Date, the unused amount shall revert to Landlord and Tenant shall have no further rights with respect thereto.

1.2 **Disbursement of the Allowance.** Except as otherwise provided in this Work Letter, the Allowance shall be disbursed by Landlord only for the following items (the "**Allowance Items**"): (a) the fees of the Architect (defined in Section 2.1 below) and the Engineers (defined in Section 2.1 below); (b) plan-check, permit and license fees relating to performance of the Tenant Improvement Work; (c) the cost of performing the Tenant Improvement Work, including after hours charges, testing and inspection costs, freight elevator usage, hoisting and trash removal costs, and contractors' fees and general conditions; (d) the cost of any change to the base, shell or core of the Premises or Building required by the Approved Construction Drawings (defined in Section 2.2 below) (including if such change is due to the fact that such work is prepared on an unoccupied basis), including all direct architectural and/or engineering fees and expenses incurred in connection therewith; (e) the cost of any change to the Approved Construction Drawings or Tenant Improvement Work required by Law; (f) the Landlord Supervision Fee (defined in Section 3.2.2 below); (g) sales and use taxes; and (h) all other costs expended by Landlord in connection with the performance of the Tenant Improvement Work.

2 PLANS AND PRICING.

2.1 **Additional Programming Information.** Landlord and Tenant acknowledge that they have approved the space plan for the Premises prepared by SAA ("Architect") attached hereto as Exhibit B-1 (the "**Space Plan**"). Tenant shall deliver to Landlord, in writing, all information that, together with the Space Plan, is necessary, in the judgment of Landlord, the Architect and the Landlord's chosen engineers (the "**Engineers**"), to complete the architectural, engineering and final architectural working drawings for the Premises in a form that is sufficient to enable subcontractors to bid on the work and to obtain all applicable permits for the Tenant Improvement Work (the "**Construction Drawings**"), including electrical requirements, telephone requirements, special HVAC requirements, plumbing requirements, and all interior and special finishes (collectively, the "**Additional Programming Information**"). The Additional Programming Information shall be consistent with Landlord's requirements for avoiding aesthetic, engineering or other conflicts with the design and function of the balance of the Building (collectively, the "**Landlord Requirements**") and shall otherwise be subject to Landlord's reasonable approval. Landlord shall provide Tenant with notice approving or reasonably disapproving the Additional Programming Information within five (5) business days after the later of Landlord's receipt thereof or the mutual execution and delivery of this Agreement. If Landlord disapproves the Additional Programming Information, Landlord's notice of disapproval shall describe with reasonable specificity the basis for such disapproval and the changes that would be necessary to resolve Landlord's objections. If Landlord disapproves the Additional Programming Information, Tenant shall modify the Additional Programming Information and resubmit it for Landlord's review and approval. Such procedure shall be repeated as necessary until Landlord has approved the Additional Programming Information. If requested by Tenant, Landlord, in its sole and absolute discretion, may assist Tenant, or cause the Architect and/or the Engineers to assist Tenant, in preparing all or a portion of the Additional Programming Information; provided, however, that, whether or not the Additional Programming Information is prepared with such assistance, Tenant shall be solely responsible for the timely preparation and delivery of the Additional Programming Information and for all elements thereof and, subject to Section 1 above, all costs relating thereto.

2.2 **Construction Drawings.** After approving the Additional Programming Information, Landlord shall cause the Architect and the Engineers to prepare and deliver to Tenant Construction Drawings that conform to the Space Plan and the approved Additional Programming Information. Such preparation and delivery shall occur within 15 business days after the later of Landlord's approval of the Additional Programming Information or the mutual execution and delivery of this Agreement. Tenant shall approve or disapprove the Construction Drawings by notice to Landlord. If Tenant disapproves the Construction Drawings, Tenant's notice of disapproval shall specify any revisions Tenant desires in the Construction Drawings. After receiving such notice of disapproval, Landlord shall cause the Architect and/or the Engineers to revise the Construction Drawings, taking into account the reasons for Tenant's disapproval (provided, however, that Landlord shall not be required to cause the Architect or the Engineers to make any revision to the Construction Drawings that is inconsistent with the Landlord Requirements or that Landlord otherwise reasonably disapproves), and resubmit the Construction Drawings to Tenant for its approval. Such revision and resubmission shall occur within five (5) business days after the later of Landlord's receipt of Tenant's notice of disapproval or the mutual execution and delivery of this Agreement if such revision is not material, and within such longer period of time as may be reasonably necessary if such revision is material. Such procedure shall be repeated as necessary until Tenant has approved the Construction Drawings. The Construction Drawings approved by Landlord and Tenant are referred to in this Work Letter as the "**Approved Construction Drawings**".

2.3 **Construction Pricing.** Within 10 business days after the Construction Drawings are approved by Landlord and Tenant, Landlord shall provide Tenant with Landlord's reasonable estimate (the "**Construction Pricing Proposal**") of the cost of all Allowance Items to be incurred by Tenant in connection with the performance of the Tenant Improvement Work pursuant to the Approved Construction Drawings. Tenant shall provide Landlord with notice approving or disapproving the Construction Pricing Proposal. If Tenant disapproves the Construction Pricing Proposal, Tenant's notice of disapproval shall be accompanied by proposed revisions to the Approved Construction Drawings that Tenant requests in order to resolve its objections to the Construction Pricing Proposal, and Landlord shall respond as required under Section 2.4 below. Such procedure shall be repeated as necessary until the Construction Pricing Proposal is approved by Tenant. Upon Tenant's approval of the Construction Pricing Proposal, Landlord may purchase the items set forth in the Construction Pricing Proposal and commence construction relating to such items.

2.4 **Revisions to Approved Construction Drawings.** If Tenant requests any revision to the Approved Construction Drawings, Landlord shall provide Tenant with notice approving or reasonably disapproving such revision, and, if Landlord approves such revision, Landlord shall have such revision made and delivered to Tenant, together with notice of any resulting change in the most recent Construction Pricing Proposal, if any, within 10 business days after the later of Landlord's receipt of such request or the mutual execution and delivery of this Agreement if such revision is not material, and within such longer period of time as may be reasonably necessary if such revision is material, whereupon Tenant, within one (1) business day, shall notify Landlord whether it desires to proceed with such revision. If Landlord has commenced performance of the Tenant Improvement Work, then, in the absence of such authorization, Landlord shall have the option to continue such performance disregarding such revision. Landlord shall not revise the Approved Construction Drawings without Tenant's consent, which shall not be unreasonably withheld, conditioned or delayed.

2.5 **Time Deadlines.** The parties shall use their commercially reasonable efforts to cooperate with each other and their architect, engineers and other consultants to complete all phases of the Approved Construction Drawings, approve the Construction Pricing Proposal and obtain the permits for the Tenant Improvement Work as soon as possible after the execution of this Agreement, and Tenant shall meet with Landlord, in accordance with a schedule determined by Landlord, to discuss the parties' progress.

3 CONSTRUCTION.

3.1 **Contractor.** A contractor designated by Landlord (the "**Contractor**") shall perform the Tenant Improvement Work. In addition, Landlord may select and/or approve of any subcontractors, mechanics and materialmen used in connection with the performance of the Tenant Improvement Work.

3.2 **Construction.**

3.2.1 **Over-Allowance Amount.** If the Construction Pricing Proposal exceeds the Allowance, then, concurrently with its delivery to Landlord of approval of the Construction Pricing Proposal, Tenant shall deliver to Landlord cash in the amount of such excess (the "**Over-Allowance Amount**"). Any Over-Allowance Amount shall be disbursed by Landlord before the Allowance and pursuant to the same procedure as the Allowance. After the Construction Pricing Proposal is approved by Tenant, if any revision is made to the Approved Construction Drawings or the Tenant Improvement Work that increases the Construction Pricing Proposal, or if the Construction Pricing Proposal is otherwise increased to reflect the actual cost of all Allowance Items to be incurred by Tenant in connection with the performance of the Tenant Improvement Work pursuant to the Approved Construction Drawings, then Tenant shall deliver any resulting Over-Allowance Amount (or any resulting increase in the Over-Allowance Amount) to Landlord immediately upon Landlord's request.

3.2.2 **Landlord's Retention of Contractor.** Landlord shall independently retain the Contractor to perform the Tenant Improvement Work in accordance with the Approved Construction Drawings. Tenant shall pay a construction supervision and management fee (the "**Landlord Supervision Fee**") to Landlord in an amount equal to **three percent (3%)** of the aggregate amount of all Allowance Items other than the Landlord Supervision Fee.

3.2.3 **Contractor's Warranties.** Landlord hereby assigns to Tenant all warranties and guarantees by Contractor relating to the Tenant Improvements, which assignment shall be on a non-exclusive basis such that the warranties and guarantees may be enforced by Landlord and/or Tenant, and Tenant hereby waives all claims against Landlord relating to, or arising out of the construction of, the Tenant Improvements, except as otherwise expressly provided herein.

4 COMPLETION.

4.1 **Substantial Completion; Punch-List.** For purposes of the Lease, the Tenant Improvement Work shall be deemed to be "**Substantially Complete**" when Landlord: (a) is able to provide Tenant with reasonable access to the Premises; (b) has substantially performed all of the Tenant Improvement Work required to be performed by Landlord under this Work Letter, other than decoration and minor "punch-list" type items and adjustments which do not materially interfere with Tenant's access to or use of the Premises; and (c) has obtained a temporary certificate of occupancy, signed-off permit card or other required equivalent approval from the local governmental authority permitting occupancy of the Premises. Within ten (10) days after the date on which the Tenant Improvement Work is Substantially Complete, Tenant will conduct a walk-through inspection of the Premises with Landlord and provide to Landlord a written punch-list specifying those decoration and other punch-list items which require completion, which items Landlord will thereafter diligently complete.

4.2 **Tenant Delay.** If the Substantial Completion of the Tenant Improvement Work is delayed (a "**Tenant Delay**") as a result of (a) Tenant's failure to timely approve any matter requiring Tenant's approval; (b) any breach by Tenant of this Work Letter or the Lease; (c) any request by Tenant for a revision to the Approved Construction Drawings (except to the extent such delay results from any failure of Landlord to perform its obligations under Section 2.4 above); (d) Tenant's requirement for materials, components, finishes or improvements that are not available in a commercially reasonable time given the anticipated date of Substantial Completion of the Tenant Improvement Work as set forth in this Agreement; or (e) any other act or omission of Tenant or any of its agents, employees or representatives, then, notwithstanding any contrary provision of this Agreement, and regardless of when the Tenant Improvement Work is actually Substantially Completed, the Tenant Improvement Work shall be deemed to be Substantially Completed on the date on which the Tenant Improvement Work would have been Substantially Completed if no such Tenant Delay had occurred. Notwithstanding the foregoing, Landlord shall not be required to tender possession of the Premises to Tenant before the Tenant Improvement Work has been Substantially Completed, as determined without giving effect to the preceding sentence.

4.3 **Tenant's Early Access.** Subject to the terms hereof and provided that Tenant and its agents do not unreasonably interfere with, or delay, Contractor's work in the Premises, at Landlord's reasonable discretion, Contractor shall allow Tenant and its agents, employees and contractors access to the Premises prior to Substantial Completion of the Premises for the purpose of Tenant installing its equipment, furnishings or fixtures (including Tenant's data and telephone equipment) in the Premises. Prior to Tenant's entry into the Premises as permitted by the terms of this Section 4.3, Tenant shall submit a schedule to Landlord and Contractor, for their approval (not to be unreasonably withheld, conditioned or delayed), which schedule shall detail the timing and purpose of Tenant's entry. In connection with any such entry, Tenant acknowledges and agrees that Tenant's employees, agents, contractors, consultants, workmen, mechanics, suppliers and invitees shall fully cooperate, work in harmony and not, in any manner, unreasonably interfere with Landlord or the Contractor, agents or representatives in performing work in the Premises, or unreasonably interfere with the general operation of the Building and/or the Property. If at any time any such person representing Tenant shall not be cooperative or shall otherwise cause or threaten to cause any such disharmony or interference, including, without limitation, labor disharmony, and Tenant fails to immediately institute and maintain corrective actions as directed by Landlord, then Landlord may revoke Tenant's entry rights upon twenty-four (24) hours' prior written notice to Tenant. Tenant acknowledges and agrees that any such entry into and occupancy of the Premises or any portion thereof by Tenant or any person or entity working for or on behalf of Tenant shall be deemed to be subject to all of the terms, covenants, conditions and provisions of the Lease, excluding only the covenant to pay Rent (until the occurrence of the Commencement Date). Except to the extent arising from the negligence or willful misconduct of Landlord or its agents, employees or contractors, Tenant further acknowledges and agrees that Landlord shall not be liable for any injury, loss or damage which may occur to any of Tenant's work made in or about the Premises in connection with such entry or to any property placed therein prior to the Commencement Date, the same being at Tenant's sole risk and liability. Tenant shall be liable to Landlord for any damage to any portion of the Premises, including the Tenant Improvement Work, caused by Tenant or any of Tenant's employees, agents, contractors, consultants, workmen, mechanics, suppliers and invitees. In the event that the performance of Tenant's work in connection with such entry requires the use of any Building services, Tenant shall promptly reimburse Landlord for such reasonable costs created by such use upon receipt of a written invoice therefor accompanied by reasonable substantiation of such costs and/or shall pay Landlord for such Building services at Landlord's standard rates then in effect.

4.4 **Commencement Date Delays**. If the Commencement Date has not occurred on or before March 1, 2014 (the "**Outside Completion Date**"), Tenant shall be entitled to a rent abatement following the Commencement Date of $940.00 for every day in the period beginning on the Outside Completion Date and ending on the Commencement Date. Landlord and Tenant acknowledge and agree that: (i) the determination of the Commencement Date shall take into consideration the effect of any Tenant Delays; and (ii) the Outside Completion Date shall be postponed by the number of days the Commencement Date is delayed due to events of Force Majeure. Notwithstanding the foregoing, (i) a Tenant Delay shall only apply if Landlord provides Tenant with written notice of such potential Tenant Delay at the time of such delay and Tenant does not approve the applicable matter, cure the breach or take other action to avoid the delay within one (1) business day after receipt of Landlord's written notice; and (ii) a delay due to Force Majeure shall only apply from and after the date on which Landlord provides Tenant with written notice of such event of Force Majeure.

5 **MISCELLANEOUS**. Notwithstanding any contrary provision of this Agreement, if Tenant defaults under this Agreement before the Tenant Improvement Work is completed, Landlord's obligations under this Work Letter shall be excused until such default is cured and Tenant shall be responsible for any resulting delay in the completion of the Tenant Improvement Work. This Work Letter shall not apply to any space other than the Premises.

EXHIBIT B-1

APPROVED SPACE PLAN

EXHIBIT C

11601 WILSHIRE BOULEVARD-WELLS FARGO CENTER

CONFIRMATION LETTER

_____, 2013

CATASYS, INC.
11601 Wilshire Boulevard
Suite No. 950
Los Angeles, California

Re: Office Lease (the "**Lease**") dated _____, 2013, between **TRIZEC WILSHIRE CENTER, LLC, a Delaware limited liability company** ("**Landlord**"), and **CATASYS, INC., a Delaware corporation** ("**Tenant**"), concerning Suite No. 950 (the "**Premises**") on the ninth (9th) floor of the building located at 11601 Wilshire Boulevard, Los Angeles, California.

Lease ID: _____
Business Unit Number: _____

Dear _____:

In accordance with the Lease, Tenant accepts possession of the Premises and confirms the following:

1. The Commencement Date is _____ and the Expiration Date is _____.

2. The exact number of rentable square feet within the Premises is _____ square feet, subject to Section 2.1.1 of the Lease.

3. Tenant's Share, based upon the exact number of rentable square feet within the Premises, is _____%, subject to Section 2.1.1 of the Lease.

Please acknowledge the foregoing by signing all three (3) counterparts of this letter in the space provided below and returning two (2) fully executed counterparts to my attention. Please note that, pursuant to Section 2.1.1 of the Lease, if Tenant fails to execute and return (or, by notice to Landlord, reasonably object to) this letter within thirty (30) days after receiving it, Tenant shall be deemed to have executed and returned it without exception.

Agreed and Accepted as of _, 2013.

"Tenant":

CATASYS, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

"Landlord":

EQUITY OFFICE MANAGEMENT, L.L.C., on behalf of Trizec Wilshire Center, LLC

By: _____
Name: _____
Title: Authorized Signatory

EXHIBIT D

11601 WILSHIRE BOULEVARD-WELLS FARGO CENTER

RULES AND REGULATIONS

Tenant shall comply with the following rules and regulations (as reasonably modified or supplemented from time to time, the "**Rules and Regulations**"). Landlord shall not be responsible to Tenant for the nonperformance of any of the Rules and Regulations by any other tenants or occupants of the Project. In the event of any conflict between the Rules and Regulations and the other provisions of this Lease, the latter shall control.

1. Tenant shall not alter any lock or install any new or additional locks or bolts on any doors or windows of the Premises without obtaining Landlord's prior consent. Tenant shall bear the cost of any lock changes or repairs required by Tenant. Two (2) keys will be furnished by Landlord for the Premises, and any additional keys required by Tenant must be obtained from Landlord at a reasonable cost to be established by Landlord. Upon the termination of this Lease, Tenant shall restore to Landlord all keys of stores, offices and toilet rooms furnished to or otherwise procured by Tenant, and if any such keys are lost, Tenant shall pay Landlord the cost of replacing them or of changing the applicable locks if Landlord deems such changes necessary.

2. All doors opening to public corridors shall be kept closed at all times except for normal ingress and egress to the Premises.

3. Landlord may close and keep locked all entrance and exit doors of the Building during such hours as are customary for Comparable Buildings. Tenant shall cause its employees, agents, contractors, invitees and licensees who use Building doors during such hours to securely close and lock them after such use. Any person entering or leaving the Building during such hours, or when the Building doors are otherwise locked, may be required to sign the Building register, and access to the Building may be refused unless such person has proper identification or has a previously arranged access pass. Landlord will furnish passes to persons for whom Tenant requests them. Tenant shall be responsible for all persons for whom Tenant requests passes and shall be liable to Landlord for all acts of such persons. Landlord and its agents shall not be liable for damages for any error with regard to the admission or exclusion of any person to or from the Building. In case of invasion, mob, riot, public excitement or other commotion, Landlord may prevent access to the Building or the Project during the continuance thereof by any means it deems appropriate for the safety and protection of life and property.

4. No furniture, freight or equipment shall be brought into the Building without prior notice to Landlord. All moving activity into or out of the Building shall be scheduled with Landlord and done only at such time and in such manner as Landlord designates. Landlord may prescribe the weight, size and position of all safes and other heavy property brought into the Building and also the times and manner of moving the same in and out of the Building. Safes and other heavy objects shall, if considered necessary by Landlord, stand on supports of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property. Any damage to the Building, its contents, occupants or invitees resulting from Tenant's moving or maintaining any such safe or other heavy property shall be the sole responsibility and expense of Tenant (notwithstanding Sections 7 and 10.4 of this Lease).

5. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours, in such specific elevator and by such personnel as shall be designated by Landlord.

6. Employees of Landlord shall not perform any work or do anything outside their regular duties unless under special instructions from Landlord.

7. No sign, advertisement, notice or handbill shall be exhibited, distributed, painted or affixed by Tenant on any part of the Premises or the Building without Landlord's prior consent. Tenant shall not disturb, solicit, peddle or canvass any occupant of the Project.

8. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed, and no foreign substance shall be thrown therein. Notwithstanding Sections 7 and 10.4 of this Lease, Tenant shall bear the expense of any breakage, stoppage or damage resulting from any violation of this rule by Tenant or any of its employees, agents, contractors, invitees or licensees.

9. Tenant shall not overload the floor of the Premises, or mark, drive nails or screws or drill into the partitions, woodwork or drywall of the Premises, or otherwise deface the Premises, without Landlord's prior consent. Tenant shall not purchase bottled water, ice, towel, linen, maintenance or other like services from any person not approved by Landlord.

10. Except for vending machines intended for the sole use of Tenant's employees and invitees, no vending machine or machines other than fractional horsepower office machines shall be installed, maintained or operated in the Premises without Landlord's prior consent.

11. Tenant shall not, without Landlord's prior consent, use, store, install, disturb, spill, remove, release or dispose of, within or about the Premises or any other portion of the Project, any asbestos-containing materials, any solid, liquid or gaseous material now or subsequently considered toxic or hazardous under the provisions of 42 U.S.C. Section 9601 et seq. or any other applicable environmental Law, or any inflammable, explosive or dangerous fluid or substance; provided, however, that Tenant may use, store and dispose of such substances in such amounts as are typically found in similar premises used for general office purposes provided that such use, storage and disposal does not damage any part of the Premises, Building or Project and is performed in a safe manner and in accordance with all Laws. Tenant shall comply with all Laws pertaining to and governing the use of such materials by Tenant and shall remain solely liable for the costs of abatement and removal. No burning candle or other open flame shall be ignited or kept by Tenant in or about the Premises, Building or Project.

12. Tenant shall not, without Landlord's prior consent, use any method of heating or air conditioning other than that supplied by Landlord.

13. Tenant shall not use or keep any foul or noxious gas or substance in or on the Premises, or occupy or use the Premises in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors or vibrations, or interfere with other occupants or those having business therein, whether by the use of any musical instrument, radio, CD player or otherwise. Tenant shall not throw anything out of doors, windows or skylights or down passageways.

14. Tenant shall not bring into or keep within the Project, the Building or the Premises any animals (other than service animals), birds, aquariums, or, except in areas designated by Landlord, bicycles or other vehicles.

15. No cooking shall be done in the Premises, nor shall the Premises be used for lodging, for living quarters or sleeping apartments, or for any improper, objectionable or immoral purposes. Notwithstanding the foregoing, Underwriters' laboratory-approved equipment and microwave ovens may be used in the Premises for heating food and brewing coffee, tea, hot chocolate and similar beverages for employees and invitees, provided that such use complies with all Laws.

16. The Premises shall not be used for manufacturing or for the storage of merchandise except to the extent such storage may be incidental to the Permitted Use. Tenant shall not occupy the Premises as an office for a messenger-type operation or dispatch office, public stenographer or typist, or for the manufacture or sale of liquor, narcotics or tobacco, or as a medical office, a barber or manicure shop, or an employment bureau, without Landlord's prior consent. Tenant shall not engage or pay any employees in the Premises except those actually working for Tenant in the Premises, nor advertise for laborers giving an address at the Premises.

17. Landlord may exclude from the Project any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs, or who violates any of these Rules and Regulations.

18. Tenant shall not loiter in or on the entrances, corridors, sidewalks, lobbies, courts, halls, stairways, elevators, vestibules or any Common Areas for the purpose of smoking tobacco products or for any other purpose, nor in any way obstruct such areas, and shall use them only as a means of ingress and egress for the Premises.

19. Tenant shall not waste electricity, water or air conditioning, shall cooperate with Landlord to ensure the most effective operation of the Building's heating and air conditioning system, and shall not attempt to adjust any controls. Tenant shall install and use in the Premises only ENERGY STAR rated equipment, where available. Tenant shall use recycled paper in the Premises to the extent consistent with its business requirements.

20. Tenant shall store all its trash and garbage inside the Premises. No material shall be placed in the trash or garbage receptacles if, under Law, it may not be disposed of in the ordinary and customary manner of disposing of trash and garbage in the vicinity of the Building. All trash, garbage and refuse disposal shall be made only through entryways and elevators provided for such purposes at such times as Landlord shall designate. Tenant shall comply with Landlord's recycling program, if any.

21. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency.

22. Any persons employed by Tenant to do janitorial work (a) shall be subject to Landlord's prior consent; (b) shall not, in Landlord's reasonable judgment, disturb labor harmony with any workforce or trades engaged in performing other work or services at the Project; and (c) while in the Building and outside of the Premises, shall be subject to the control and direction of the Building manager (but not as an agent or employee of such manager or Landlord), and Tenant shall be responsible for all acts of such persons.

23. No awning or other projection shall be attached to the outside walls of the Building without Landlord's prior consent. Other than Landlord's Building-standard window coverings, no curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises. All electrical ceiling fixtures hung in the Premises or spaces along the perimeter of the Building must be fluorescent and/or of a quality, type, design and a warm white bulb color approved in advance by Landlord. Neither the interior nor exterior of any windows shall be coated or otherwise sunscreened without Landlord's prior consent. Tenant shall abide by Landlord's reasonable regulations concerning the opening and closing of window coverings.

24. Tenant shall not obstruct any sashes, sash doors, skylights, windows or doors that reflect or admit light or air into the halls, passageways or other public places in the Building, nor shall Tenant place any bottles, parcels or other articles on the windowsills.

25. Tenant must comply with requests by Landlord concerning the informing of their employees of items of importance to the Landlord.

26. Tenant must comply with the State of California "No-Smoking" law set forth in California Labor Code Section 6404.5 and with any local "No-Smoking" ordinance that is not superseded by such law.

27. Tenant shall cooperate in any reasonable safety or security program developed by Landlord or required by Law.

28. All office equipment of an electrical or mechanical nature shall be placed by Tenant in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise or annoyance.

29. Tenant shall not use any hand trucks except those equipped with rubber tires and rubber side guards.

30. No auction, liquidation, fire sale, going-out-of-business or bankruptcy sale shall be conducted in the Premises without Landlord's prior consent.

31. Without Landlord's prior consent, Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises.

Landlord may from time to time modify or supplement these Rules and Regulations in a manner that, in Landlord's reasonable judgment, is appropriate for the management, safety, care and cleanliness of the Premises, the Building, the Common Areas and the Project, for the preservation of good order therein, and for the convenience of other occupants and tenants thereof. Landlord may waive any of these Rules and Regulations for the benefit of any tenant, but no such waiver shall be construed as a waiver of such Rule and Regulation in favor of any other tenant nor prevent Landlord from thereafter enforcing such Rule and Regulation against any tenant.

EXHIBIT E

11601 WILSHIRE BOULEVARD-WELLS FARGO CENTER

JUDICIAL REFERENCE

IF THE JURY-WAIVER PROVISIONS OF SECTION 25.8 OF THIS LEASE ARE NOT ENFORCEABLE UNDER CALIFORNIA LAW, THE PROVISIONS SET FORTH BELOW SHALL APPLY.

It is the desire and intention of the parties to agree upon a mechanism and procedure under which controversies and disputes arising out of this Lease or related to the Premises will be resolved in a prompt and expeditious manner. Accordingly, except with respect to actions for unlawful or forcible detainer or with respect to the prejudgment remedy of attachment, any action, proceeding or counterclaim brought by either party hereto against the other (and/or against its officers, directors, employees, agents or subsidiaries or affiliated entities) on any matters arising out of or in any way connected with this Lease, Tenant's use or occupancy of the Premises and/or any claim of injury or damage, whether sounding in contract, tort, or otherwise, shall be heard and resolved by a referee under the provisions of the California Code of Civil Procedure, Sections 638 — 645.1, inclusive (as same may be amended, or any successor statute(s) thereto) (the "**Referee Sections**"). Any fee to initiate the judicial reference proceedings and all fees charged and costs incurred by the referee shall be paid by the party initiating such procedure (except that if a reporter is requested by either party, then a reporter shall be present at all proceedings where requested and the fees of such reporter – except for copies ordered by the other parties – shall be borne by the party requesting the reporter); provided however, that allocation of the costs and fees, including any initiation fee, of such proceeding shall be ultimately determined in accordance with Section 25.6 of this Lease. The venue of the proceedings shall be in the county in which the Premises are located. Within 10 days of receipt by any party of a request to resolve any dispute or controversy pursuant to this **Exhibit E**, the parties shall agree upon a single referee who shall try all issues, whether of fact or law, and report a finding and judgment on such issues as required by the Referee Sections. If the parties are unable to agree upon a referee within such 10-day period, then any party may thereafter file a lawsuit in the county in which the Premises are located for the purpose of appointment of a referee under the Referee Sections. If the referee is appointed by the court, the referee shall be a neutral and impartial retired judge with substantial experience in the relevant matters to be determined, from Jams/Endispute, Inc., ADR Services, Inc. or a similar mediation/arbitration entity approved by each party in its sole and absolute discretion. The proposed referee may be challenged by any party for any of the grounds listed in the Referee Sections. The referee shall have the power to decide all issues of fact and law and report his or her decision on such issues, and to issue all recognized remedies available at law or in equity for any cause of action that is before the referee, including an award of attorneys' fees and costs in accordance with this Lease. The referee shall not, however, have the power to award punitive damages, nor any other damages that are not permitted by the express provisions of this Lease, and the parties waive any right to recover any such damages. The parties may conduct all discovery as provided in the California Code of Civil Procedure, and the referee shall oversee discovery and may enforce all discovery orders in the same manner as any trial court judge, with rights to regulate discovery and to issue and enforce subpoenas, protective orders and other limitations on discovery available under California Law. The reference proceeding shall be conducted in accordance with California Law (including the rules of evidence), and in all regards, the referee shall follow California Law applicable at the time of the reference proceeding. The parties shall promptly and diligently cooperate with one another and the referee, and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of the dispute or controversy in accordance with the terms of this **Exhibit E**. In this regard, the parties agree that the parties and the referee shall use best efforts to ensure that (a) discovery be conducted for a period no longer than six (6) months from the date the referee is appointed, excluding motions regarding discovery, and (b) a trial date be set within 9 months of the date the referee is appointed. In accordance with Section 644 of the California Code of Civil Procedure, the decision of the referee upon the whole issue must stand as the decision of the court, and upon the filing of the statement of decision with the clerk of the court, or with the judge if there is no clerk, judgment may be entered thereon in the same manner as if the action had been tried by the court. Any decision of the referee and/or judgment or other order entered thereon shall be appealable to the same extent and in the same manner that such decision, judgment, or order would be appealable if rendered by a judge of the superior court in which venue is proper hereunder. The referee shall in his/her statement of decision set forth his/her findings of fact and conclusions of law. The parties intend this general reference agreement to be specifically enforceable in accordance with the Code of Civil Procedure. Nothing in this **Exhibit E** shall prejudice the right of any party to obtain provisional relief or other equitable remedies from a court of competent jurisdiction as shall otherwise be available under the Code of Civil Procedure and/or applicable court rules.

EXHIBIT F

11601 WILSHIRE BOULEVARD-WELLS FARGO CENTER

ADDITIONAL PROVISIONS

1. **California Civil Code Section 1938.** Pursuant to California Civil Code § 1938, Landlord hereby states that the Premises have not undergone inspection by a Certified Access Specialist (CASp) (defined in California Civil Code § 55.52).

2. **Extension Option**.

2.1. **Grant of Option; Conditions.** Tenant shall have the right (the "**Extension Option**") to extend the Term for one (1) additional period of five (5) years beginning on the day immediately following the Expiration Date of the Lease and ending on the fifth (5^{th}) anniversary of such Expiration Date (the "**Extension Term**"), if:

A. not less than 9 and not more than 13 full calendar months before the Expiration Date of the Lease, Tenant delivers written notice to Landlord (the "**Extension Notice**") electing to exercise the Extension Option;

B. Tenant is not in Default under the Lease beyond any applicable cure period when Tenant delivers the Extension Notice;

C. no more than 25% of the Premises is sublet when Tenant delivers the Extension Notice (except in connection with a Permitted Transfer); and

D. the Lease has not been assigned before Tenant delivers the Extension Notice (except in connection with a Permitted Transfer).

2.2. **Terms Applicable to Extension Term.**

A. During the Extension Term, (a) the Base Rent rate per rentable square foot shall be equal to the Prevailing Market rate per rentable square foot; (b) Base Rent shall increase, if at all, in accordance with the increases assumed in the determination of Prevailing Market rate; and (c) Base Rent shall be payable in monthly installments in accordance with the terms and conditions of the Lease.

B. During the Extension Term Tenant shall pay Tenant's Share of any Expense Excess and Tax Excess for the Premises in accordance with the Lease.

2.3. **Procedure for Determining Prevailing Market.**

A. Initial Procedure. Within 30 days after receiving the Extension Notice, Landlord shall give Tenant written notice stating Landlord's estimate of the Prevailing Market rate for the Extension Term. Tenant, within 15 days thereafter, shall give Landlord either (i) written notice ("**Tenant's Binding Notice**") accepting Landlord's estimate of the Prevailing Market rate for the Extension Term, or (ii) written notice ("**Tenant's Rejection Notice**") rejecting such estimate. If Tenant gives Landlord a Tenant's Rejection Notice, Landlord and Tenant shall work together in good faith to agree in writing upon the Prevailing Market rate for the Extension Term. If, within 30 days after delivery of a Tenant's Rejection Notice, the parties fail to agree in writing upon the Prevailing Market rate, the provisions of Section 2.3.B below shall apply.

B. Dispute Resolution Procedure**.**

1. If, within 30 days after delivery of a Tenant's Rejection Notice, the parties fail to agree in writing upon the Prevailing Market rate, Landlord and Tenant, within five (5) days thereafter, shall each simultaneously submit to the other, in a sealed envelope, its good faith estimate of the Prevailing Market rate for the Extension Term (collectively, the "**Estimates**"). If the higher of such Estimates is not more than 105% of the lower of such Estimates, the Prevailing Market rate shall be deemed to be the average of the two Estimates. Otherwise, within seven (7) days after the exchange of Estimates, Landlord and Tenant shall each select an appraiser to determine which of the two Estimates most closely reflects the Prevailing Market rate for the Extension Term. Each appraiser so selected shall be certified as an MAI appraiser or as an ASA appraiser and shall have had at least five (5) years experience within the previous 10 years as a real estate appraiser working in the submarket of Los Angeles, California of which the Building is a part, with working knowledge of current rental rates and leasing practices relating to buildings similar to the Building. For purposes hereof, an "**MAI**" appraiser means an individual who holds an MAI designation conferred by, and is an independent member of, the American Institute of Real Estate Appraisers (or its successor organization, or in the event there is no successor organization, the organization and designation most similar), and an "**ASA**" appraiser means an individual who holds the Senior Member designation conferred by, and is an independent member of, the American Society of Appraisers (or its successor organization, or, in the event there is no successor organization, the organization and designation most similar).

2. If each party selects an appraiser in accordance with Section 2.3.B.1 above, the parties shall cause their respective appraisers to work together in good faith to agree upon which of the two Estimates most closely reflects the Prevailing Market rate for the Extension Term. The Estimate, if any, so agreed upon by such appraisers shall be final and binding on both parties as the Prevailing Market rate for the Extension Term and may be entered in a court of competent jurisdiction. If the appraisers fail to reach such agreement within 20 days after their selection, then, within 10 days after the expiration of such 20-day period, the parties shall instruct the appraisers to select a third appraiser meeting the above criteria (and if the appraisers fail to agree upon such third appraiser within 10 days after being so instructed, either party may cause a court of competent jurisdiction to select such third appraiser). Promptly upon selection of such third appraiser, the parties shall instruct such appraiser (or, if only one of the parties has selected an appraiser within the 7-day period described above, then promptly after the expiration of such 7-day period the parties shall instruct such appraiser) to determine, as soon as practicable but in any case within 14 days after his selection, which of the two Estimates most closely reflects the Prevailing Market rate. Such determination by such appraiser (the "**Final Appraiser**") shall be final and binding on both parties as the Prevailing Market rate for the Extension Term and may be entered in a court of competent jurisdiction. If the Final Appraiser believes that expert advice would materially assist him, he may retain one or more qualified persons to provide such expert advice. The parties shall share equally in the costs of the Final Appraiser and of any experts retained by the Final Appraiser. Any fees of any other appraiser, counsel or expert engaged by Landlord or Tenant shall be borne by the party retaining such appraiser, counsel or expert.

C. If the Prevailing Market rate has not been determined by the commencement date of the Extension Term, Tenant shall pay Base Rent for the Extension Term upon the terms and conditions in effect during the last month ending on or before the Expiration Date until such time as the Prevailing Market rate has been determined. Upon such determination, the Base Rent for the Extension Term shall be retroactively adjusted. If such adjustment results in an under- or overpayment of Base Rent by Tenant, Tenant shall pay Landlord the amount of such underpayment, or receive a credit in the amount of such overpayment, with or against the next Base Rent due under the Lease.

2.4. **Extension Amendment.** If Tenant is entitled to and properly exercises its Extension Option, and if the Prevailing Market rate for the Extension Term is determined in accordance with Section 2.3 above, Landlord, within a reasonable time thereafter, shall prepare and deliver to Tenant an amendment (the "**Extension Amendment**") reflecting changes in the Base Rent, the Term, the expiration date of the Lease, and other appropriate terms in accordance with this Section 2, and Tenant shall execute and return (or provide Landlord with reasonable objections to) the Extension Amendment within 15 days after receiving it. Notwithstanding the foregoing, upon determination of the Prevailing Market rate for the Extension Term in accordance with Section 2.3 above, an otherwise valid exercise of the Extension Option shall be fully effective whether or not the Extension Amendment is executed.

2.5. **Definition of Prevailing Market.** For purposes of this Extension Option, "**Prevailing Market**" shall mean the arms-length, fair-market, annual rental rate per rentable square foot under extension and renewal leases and amendments entered into on or about the date on which the Prevailing Market is being determined hereunder for space comparable to the Premises in the Building and Comparable Buildings. The determination of Prevailing Market shall take into account (i) any material economic differences between the terms of the Lease and any comparison lease or amendment, such as rent abatements, construction costs and other concessions, and the manner, if any, in which the landlord under any such lease is reimbursed for operating expenses and taxes; (ii) any material differences in configuration or condition between the Premises and any comparison space, including any cost that would have to be incurred in order to make the configuration or condition of the comparison space similar to that of the Premises; and (iii) any reasonably anticipated changes in the Prevailing Market rate from the time such Prevailing Market rate is being determined and the time such Prevailing Market rate will become effective under the Lease.

2.6. **Subordination**. Notwithstanding anything herein to the contrary, Tenant's Extension Option is subject and subordinate to the expansion rights (whether such rights are designated as a right of first offer, right of first refusal, expansion option or otherwise) of any tenant of the Building or the Project existing on the date hereof.

Exhibit 31.1

CERTIFICATION

I, Terren S. Peizer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Catasys, 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: November 13, 2013

/s/ TERREN S. PEIZER
Terren S. Peizer
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Susan Etzel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Catasys, 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: November 13, 2013

/s/ SUSAN ETZEL
Susan Etzel
Chief Financial Officer
(Principal Financial and Accounting 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

In connection with the Quarterly Report on Form 10-Q of Catasys, Inc. (the "Company) for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, Terren S. Peizer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ TERREN S. PEIZER — November 13, 2013

Terren S. Peizer — Date

Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION 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 Quarterly Report on Form 10-Q of Catasys, Inc. (the "Company) for the quarter ended September 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, Susan Etzel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SUSAN ETZEL — November 13, 2013

Susan Etzel — Date
Chief Financial Officer
(Principal Financial and Accounting Officer)