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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended **December 31, 2014**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___to _____

Commission File Number **001-31932**

CATASYS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**88-0464853**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)

11601 Wilshire Boulevard, Suite 950
Los Angeles, California 90025
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act**:**
None

Securities registered pursuant to Section 12(g) of the Act**:**
Common Stock, Par Value $0.0001 Per Share
(Title of Class)

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ☐ [Do not check if a smaller reporting company]	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 June 30, 2014, the last business day of the registrant's second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) was $6,558,059 based on the $2.05 closing bid price of the common stock on the OTCQB on that date.

As of March 30, 2015, there were 25,320,540 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

CATASYS, INC.
Form 10-K Annual Report
For The Fiscal Year Ended December 31, 2014

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In this Annual Report on Form 10-K, except as otherwise stated or the context otherwise requires, the terms “the Company,” “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

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed due to factors such as, among others, limited operating history, difficulty in developing, exploiting and protecting proprietary technologies, intense competition and substantial regulation in the healthcare industry. Additional information concerning factors that could cause or contribute to such differences can be found in the following discussion, as well as in Item 1A. "Risk Factors" and Item 7."Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 1. BUSINESS

Overview

We provide specialized healthcare management services to health plans and other third party payors through our On*Trak* program. Our On*Trak* program is designed to improve member health and at the same time lower costs to the insurer for underserved populations where behavioral health conditions are exacerbating co-existing medical conditions. The program utilizes member engagement and patient centric treatment that integrates evidence based medical and psychosocial interventions along with care coaching in a 52-week outpatient program. Our initial focus has been members with substance use disorders, but we have plans to expand into other behavioral health conditions, including anxiety and depression. We currently operate our On*Trak* for substance dependence program in Florida, Kansas, Kentucky, Louisiana, Massachusetts, New Jersey, Oklahoma, West Virginia and Wisconsin.

We have not been profitable since our inception in 2003 and may continue to incur operating losses for at least the next twelve months.

In the fourth quarter of 2014 we commenced enrollment of our On*Trak* program in Florida and New Jersey. The launch of the Florida program represented an expansion of an existing customer relationship. In the first quarter of 2015 we expanded our Wisconsin program with a national health plan to include their Medicare Advantage members. In addition, we signed an agreement with a new customer in Illinois, which is anticipated to commence enrollment in the second quarter of 2015, and an existing customer in Kansas to expand to our On*Trak* for anxiety program. The agreement to include On*Trak* for anxiety represents our first agreement for this product.

We believe that our business and operations as outlined above are in substantial compliance with applicable laws and regulations. However, the healthcare industry is highly regulated, and the criteria are often vague and subject to change and interpretation by various federal and state legislatures, courts, enforcement and regulatory authorities. Only a treating physician can determine if our OnTrak program is appropriate for any individual patient. Our future prospects are subject to the legal, regulatory, commercial and scientific risks outlined below and in Item 1.A "Risk Factors."

Substance Dependence

Scientific research indicates that not only can drugs interfere with normal brain functioning, but they can also have long-lasting effects that persist even after the drug is no longer being used. Data indicates that at some point changes may occur in the brain that can turn drug and alcohol abuse into substance dependence—a chronic, relapsing and sometimes fatal disease. Those dependent on drugs may suffer from compulsive drug craving and usage and be unable to stop drug use or remain drug abstinent without effective treatment. Professional medical treatment may be necessary to end this physiologically-based compulsive behavior.

Substance dependence is a worldwide problem with prevalence rates continuing to rise despite the efforts by national and local health authorities to curtail its growth. Substance dependence disorders affect many people and have wide-ranging social consequences. In 2012, an estimated 22.2 million Americans ages 12 and older were classified with substance dependence or abuse, of which less than 3 million received the specialized treatment they needed, according to the National Survey on Drug Use and Health published by the Substance Abuse and Mental Health Services Administration (SAMHSA), an agency of the U.S. Department of Health and Human Services.

We believe the best results in treating substance dependence can be achieved in programs such as our On*Trak* program that integrate psychosocial and medical treatment modalities and provide longer term support on an out-patient basis.

Our Market

The true impact of substance dependence is often under-identified by organizations that provide healthcare benefits. The reality is that substance dependent individuals:

- are prevalent in any organization;
- cost health plans and employers a disproportionate amount of money;
- have higher rates of absenteeism and lower rates of productivity; and
- have co-morbid medical conditions which incur increased costs for the treatment of these conditions compared to a non-substance dependent population.

When considering substance dependence-related costs, many organizations have historically only looked at direct treatment costs–usually behavioral claims. The reality is that substance dependent individuals generally have overall poorer health and lower compliance, which leads to more expensive treatment for related, and even seemingly unrelated, co-occurring medical conditions. In fact, of total healthcare claims costs associated with substance dependence populations, the vast majority are medical claims and not behavioral treatment costs.

According to the U.S. Census Bureau in 2011, there were over 197 million lives in the United States covered by various private managed care programs including Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), self-insured employers and managed Medicare/Medicaid programs. Each year, based on our analysis, approximately 1.9% of commercial plan members will have a substance dependence diagnosis, and that figure may be lesser or greater for specific payors depending on the health plan demographics and location. A smaller, high-cost subset of this population drives the majority of the claims costs for the overall substance dependent population. For commercial members with substance dependence and a total annual claims cost of at least $7,500, the average annual per member claims cost is $27,500, compared with an average of $3,250 for a commercial non-substance dependent member, according to our research.

Our customers provide health insurance to individuals or groups (Contracted Membership). We contract with our customers to provide our OnTrak program to the customers' Contracted Membership generally in specific lines of business (e.g., commercial, Medicare, Medicaid, etc.) and/or specific states or other geographical areas and for specific indications, such as substance use disorders and, more recently, anxiety. We refer to the Contracted Membership to whom we are providing the OnTrak program as Covered Lives. Generally, we receive data relating to the Covered Lives on a regular basis from our customers. We use that data to identify members who meet our contractual eligibility requirements (Eligible Members) and we attempt to engage and enroll those members in our OnTrak program. Our Eligible Members can fluctuate significantly month to month due to fluctuations in our customers' Contracted Membership and changes in eligibility due to changes in claims or eligibility data provided to us by our customers. Based on our analysis of the data provided to us by our customers approximately 0.045% of Contracted Membership in a commercial line of business are anticipated to be eligible for our OnTrak substance use disorder program. Based on our analysis, Medicare and Medicaid lines of business average approximately 2.5 times the number of Eligible Members for our OnTrak substance use disorder program as the same number Covered Lives in a commercial line of business. Further, as we move into OnTrak programs for anxiety and depression, our preliminary data analysis shows that adding anxiety and depression indications to our Covered Lives is anticipated to increase our pool of Eligible Members substantially. Based on the latest data provided by the one customer that has contracted for us to provide OnTrak for anxiety, adding the anxiety indication is anticipated to increase the number of Eligible Members by approximately 4 times over substance use disorders alone. There are fluctuations in the number of Eligible Members across customers and geographies. Our analysis to date is based on limited data, and in some cases like anxiety and depression, very limited data. There can be no assurance that the data we have analyzed to date will be predictive of the future or that the portion of Covered Lives that are eligible for our programs will not change in the future. In addition, the percentage of Eligible Members in any lines of Covered Lives may fluctuate substantially from period to period.

Our Solution: On*Trak*

On*Trak*™

Our On*Trak* program combines evidence based medical and psychosocial treatments with elements of population health management and ongoing member support to help organizations treat members with substance dependence to improve member health and lower the overall health plan costs of these members. We believe the benefits of our On*Trak* program include improved clinical outcomes and decreased costs for the payor, and improved quality of life and productivity for the member.

We believe On*Trak* is the only program of its kind dedicated exclusively for substance dependence. The On*Trak* substance dependence program was developed by addiction experts with years of clinical experience in the substance dependence field. This experience has helped to form key areas of expertise that we believe sets our solution apart from other solutions, including member engagement, working directly with the member treatment team and a more fully integrated treatment offering.

Our On*Trak* program includes the following components: identification of impactable members, member engagement, enrollment/referral, provider network, outpatient medical treatment, outpatient psychosocial treatment, care coaching, monitoring and reporting, and our proprietary web-based clinical information platform (eOn*Trak*).

We assist health plans to identify those members who incur significant costs and may be appropriate for enrollment into On*Trak*. We then engage and enroll targeted members into our program through direct mailings and telephonic outreach, and referral through health plan sources. After enrollment, our contracted specially trained network of providers provide treatments utilizing integrated medical and psychosocial treatment modalities, including our proprietary On*Trak* Relapse Prevention Program to help members develop improved coping skills and a recovery support network. Throughout the treatment process, our care coaches work directly with members to keep them engaged in treatment by proactively supporting members to enhance motivation, minimize lapses and enable lifestyle modifications consistent with the recovery goals. We also link providers and care coaches to member information through our eOn*Trak* web based clinical information platform, enabling each provider to be better informed with a member's treatment in order to assist in providing the best possible care. Periodically we will provide outcomes reporting on clinical and financial metrics to our customers to demonstrate the extent of the program's value.

Clinical and financial outcomes from the On*Trak* program have been promising with On*Trak* enrolled members achieving an average gross cost reduction of more than 50% as measured from the 12 months prior to enrollment. In addition, to date, approximately 80% of members who have remained eligible have been retained in the program.

On*Trak* – *Integrated Substance Dependence Solutions*

Our proprietary On*Trak* integrated substance dependence solutions are designed to improve treatment outcomes and lower the utilization of medical and behavioral health plan services by high utilizing and high risk enrollees. Our On*Trak* substance dependence programs include medical and psychosocial interventions, a proprietary web based clinical information platform and database, psychosocial programs and integrated care coaching services.

Another important aspect of the Catasys program is that the program is flexible and can be altered in a modular way to enable us to partner with payors to meet their needs. As a service delivery model, the On*Trak* program can be modified to cover particular populations and provide for varying levels of service. In this way On*Trak* can work with payors to identify, engage and treat a broader spectrum of patients struggling with substance dependence in a way that is consistent with payors' business needs.

Our value proposition to our customers includes that the On*Trak* program is designed for the following benefits:

- A specific program aimed at addressing high-cost conditions by improving patient health and thereby reducing overall healthcare costs can benefit health plans;
- Increased worker productivity by reducing workplace absenteeism, compensation claims and job related injuries;
- Decreased emergency room and inpatient utilization;
- Decreased readmission rates; and
- Healthcare cost savings (including medical, behavioral and pharmaceutical).

Our Strategy

Our business strategy is to provide a quality integrated medical and behavioral program to help health plans and other organizations treat and manage health plan members whose behavioral health conditions are exaserbating co-existing medical conditions resulting in increased in-patient medical costs. We have initially focused on members with substance use disorders. We intend to grow our business through increased adoption by health plans and other payors of our On*Trak* program for substance dependence, as well as expansion into other populations with high costs driven by other behavioral health conditions.

Key elements of our business strategy include:

- Demonstrating the potential for improved clinical outcomes and reduced cost associated with using our On*Trak* program with key managed care and other third-party payors;
- Educating third-party payors on the disproportionately high cost of their substance dependent population;
- Providing our On*Trak* program to third-party payors for reimbursement on a case rate, fee for service, or monthly fee basis; and
- Generating outcomes data from our On*Trak* program to demonstrate cost reductions and utilization of this outcomes data to facilitate broader adoption.

As an early entrant into offering integrated medical and behavioral programs for substance dependence, we believe we will be well positioned to address increasing market demand. We believe our On*Trak* program will help fill the gap that exists today: a lack of programs that focus on smaller populations with disproportionately higher costs driven by behavioral health conditions that improve patient care while controlling overall treatment costs.

Our Operations

Healthcare Services

Our On*Trak* program combines 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 improve their health and thereby decrease their overall health care costs.

As of March 30, 2015, we have contracts for our On*Trak* program with seven health plans, three of which have merged and are in the process of integrating operations. We are enrolling patients under six of these contracts, with enrollment for the seventh expected to commence in the second quarter of 2015.

We are currently marketing our On*Trak* program 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 program.

Discontinued Operations

We have discontinued our license and management fees segment. The operations were shut down effective April 1, 2014 and all of the assets were absorbed by the Company.

Competition

Healthcare Services

Our On*Trak* program focuses primarily on substance dependence and is marketed to health plans and other insurance payers. While we believe our products and services are unique, we operate in highly competitive markets. We compete with other healthcare management service organizations and disease management companies, including managed behavioral health organizations (MBHOs) that manage behavioral health benefits, perform utilization reviews, provide case management and patient coaching, and pay their network of providers for behavioral health services delivered. Most of our competitors are significantly larger and have greater financial, marketing and other resources than us. We compete with companies such as Hummingbird, One Health Solutions, and Health Integrated that offer coaching, social media, and in the case of Health Integrated, more comprehensive products to address the costs of members with substance dependence and other behavioral health conditions. One Health Solutions, a behavioral change technology and social networking site for people in recovery, has conducted a pilot with a national health plan that purported to show a reduction in in-patient readmissions for substance dependence treatment and has reported a pilot with a large managed behavioral health organization that has exceeded expectations on duration and frequency of participant engagement. We believe our product is the most comprehensive to focus exclusively on substance dependence and focus on the overall health and cost of members.

In addition, managed care companies may seek to provide similar specialty healthcare services directly to their members, rather than by contracting with us for such services. Behavioral health conditions, including substance dependence, are typically managed for insurance companies by internal divisions or third-parties (MBHOs) frequently under capitated arrangements. Under such arrangements, MBHOs are paid a fixed monthly fee and must pay providers for provided services, which gives such entities an incentive to decrease cost and utilization of services by members. We compete to differentiate our integrated program for high utilizing substance dependence members, which seeks to increase treatment and impact the overall health care costs of the members, from the population utilization management programs that MBHOs offer to manage a health benefit.

We believe that our ability to offer customers a comprehensive and integrated substance dependence solution, including the utilization of innovative medical and psychosocial treatments and engagement methodologies, and our unique technology platform will enable us to compete effectively. However, there can be no assurance that we will not encounter more effective competition in the future, which would limit our ability to maintain or increase our business.

Once we contract with a third-party payor we implement our program in conjunction with the third party payor and then commence outreach to eligible members to enroll them in our On*Trak* program. In this enrollment process we compete against numerous other providers of substance dependence treatment programs, facilities and providers for those members that elect to receive treatment for substance dependence (see Treatment Programs below). We believe we provide members lower cost and more comprehensive solutions, but members may choose to receive care from other providers. To the extent a member selects a different provider that is part of a health plan network of providers, the cost of such treatment may be paid in whole or in part by our health plan customer.

Treatment Programs

There are over 13,500 facilities reporting to the SAMHSA that provide substance dependence treatment. Well-known examples of residential treatment programs include the Betty Ford Center®, Caron Foundation®, Hazelden® and Sierra Tucson®. In addition, individual physicians may provide substance dependence treatment in the course of their practices. Many of these traditional treatment programs have established name recognition.

Trademarks

We rely on a combination of trademark, trade secret and copyright laws and contractual restrictions to protect the proprietary aspects of our technology. Our branded trade names on which we rely include the following:

- On*Trak*™; and
- eOn*Trak*™.

We require that, as a condition of their employment, employees assign to us their interests in inventions, original works of authorship, copyrights and similar intellectual property rights conceived or developed by them during their employment with us.

Financial Information about Segments

We manage and report our operations through one business segment: Healthcare Services. This segment includes the On*Trak* program marketed to health plans and other third party payors.

Employees

As of December 31, 2014, we employed 44 full-time and 1 part-time employees. We are not a party to any labor agreements and none of our employees are represented by a labor union.

Corporate Information

We were incorporated in the State of Delaware on September 29, 2003. Our principal executive offices are located at 11601 Wilshire Blvd, Suite 950, Los Angeles, California 90025, and our telephone number is (310) 444-4300.

Our corporate website address is *www.catasys.com.* Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The Securities and Exchange Commission maintains an internet site that contains our public filings with the Securities and Exchange Commission and other information regarding our company, at *www.sec.gov.* These reports and other information concerning our company may also be accessed at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The contents of these websites are not incorporated into this Annual Report. Further, our references to the URLs for these websites are intended to be inactive textual reference only.

ITEM 1A. RISK FACTORS

You should carefully consider and evaluate all of the information in this report, including the risk factors listed below. Risks and uncertainties in addition to those we describe below, that may not be presently known to us, or that we currently believe are immaterial, may also harm our business and operations. If any of these risks occurs, our business, results of operations and financial condition could be harmed, the price of our common stock could decline, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements contained in this report.

Risks related to our business

We have a limited operating history, expect to continue to incur substantial operating losses and may be unable to obtain additional financing, causing our independent registered public accounting firm to express substantial doubt about our ability to continue as a going concern.

We have been unprofitable since our inception in 2003 and expect to incur substantial additional operating losses and negative cash flow from operations for at least the next twelve months. As of December 31, 2014, these conditions raised substantial doubt as to our ability to continue as a going concern. At December 31, 2014, cash and cash equivalents was approximately $708,000 and accumulated deficit was approximately $254.6 million. During the twelve months ended December 31, 2014, our cash and cash equivalents used by operating activities was $5.3 million. Although we have recently taken actions to increase revenues and obtain additional financing, there can be no assurance that we will be successful in our efforts. We may not be successful in raising necessary funds on acceptable terms or at all, and we may not be able to offset our operating losses by sufficient reductions in expenses and increases in revenue. If this occurs, we may be unable to meet our cash obligations as they become due and we may be required to further delay or reduce operating expenses and curtail our operations, which would have a material adverse effect on us.

We may fail to successfully manage and grow our business, which could adversely affect our results of operations, financial condition and business.

Continued expansion could put significant strain on our management, operational and financial resources. The need to comply with the rules and regulations of the SEC will continue to place significant demands on our financial and accounting staff, financial, accounting and information systems, and our internal controls and procedures, any of which may not be adequate to support our anticipated growth. The need to comply with the state and federal healthcare, security and privacy regulation will continue to place significant demands on our staff and our policies and procedures, any of which may not be adequate to support our anticipated growth. We may not be able to effectively hire, train, retain, motivate and manage required personnel. Our failure to manage growth effectively could limit our ability to satisfy our reporting obligations, or achieve our marketing, commercialization and financial goals.

We will need additional funding, and we cannot guarantee that we will find adequate sources of capital in the future.

We have incurred negative cash flows from operations since inception and have expended, and expect to continue to expend, substantial funds to grow our business. As of March 30, 2015, we estimate that our existing cash and cash equivalents will be sufficient to fund our operating expenses and capital requirements into April 2015. Actual cash fees collected and expenses incurred may significantly impact this estimate. We will require additional funds before we achieve positive cash flows and we may never become cash flow positive.

If we raise additional funds by issuing equity securities, such financing will result in further dilution to our stockholders. Any equity securities issued also may provide for rights, preferences or privileges senior to those of holders of our common stock. If we raise funds by issuing debt securities, these debt securities would have rights, preferences and privileges senior to those of holders of our common stock, and the terms of the debt securities issued could impose significant restrictions on our operations.

We do not know whether additional financing will be available on commercially acceptable terms, or at all. If adequate funds are not available or are not available on commercially acceptable terms, we may need to continue to downsize, curtail program development efforts or halt our operations altogether.

Our programs may not be as effective as we believe them to be, which could limit our potential revenue growth.

Our belief in the efficacy of our On*Trak* solution is based on a limited experience with a relatively small number of patients. Such results may not be statistically significant, have not been subjected to close scientific scrutiny, and may not be indicative of the long-term future performance of treatment with our programs. If the initially indicated results cannot be successfully replicated or maintained over time, utilization of our programs could decline substantially. There are no standardized methods for measuring efficacy of programs such as ours. Even if we believe our solutions are effective, our customers could determine they are not utilizing different outcomes measures. In addition, even if our customers determine our programs are effective they may discontinue them because they determine that the aggregate cost savings are not sufficient or that our programs do not have a high enough return on investment. Our success is dependent on our ability to enroll third-party payor members in our On*Trak* programs. Large scale outreach and enrollment efforts have not been conducted and only for limited time periods and we may not be able to achieve the anticipated enrollment rates.

Our On*Trak* Program may not become widely accepted, which could limit our growth.

Our ability to achieve further marketplace acceptance for our On*Trak* Program may be dependent on our ability to contract with a sufficient number of third party payors and to demonstrate financial and clinical outcomes from those agreements. If we are unable to secure sufficient contracts to achieve recognition or acceptance of our On*Trak* program or if our program does not demonstrate the expected level of clinical improvement and cost savings it is unlikely we will be able to achieve widespread market acceptance.

Disappointing results for our Catasys Program or failure to attain our publicly disclosed milestones, could adversely affect market acceptance and have a material adverse effect on our stock price.

Disappointing results, later-than-expected press release announcements or termination of evaluations, pilot programs or commercial On*Trak* programs could have a material adverse effect on the commercial acceptance of our programs, our stock price and on our results of operations. In addition, announcements regarding results, or anticipation of results, may increase volatility in our stock price. In addition to numerous upcoming milestones, from time to time we provide financial guidance and other forecasts to the market. While we believe that the assumptions underlying projections and forecasts we make publicly available are reasonable, projections and forecasts are inherently subject to numerous risks and uncertainties. Any failure to achieve milestones, or to do so in a timely manner, or to achieve publicly announced guidance and forecasts, could have a material adverse effect on our results of operations and the price of our common stock.

Our industry is highly competitive, and we may not be able to compete successfully.

The healthcare business, in general, and the substance dependence treatment business in particular, are highly competitive. While we believe our products and services are unique, we operate in highly competitive markets. We compete with other healthcare management service organizations and disease management companies, including MBHOs and other specialty healthcare and managed care companies. Most of our competitors are significantly larger and have greater financial, marketing and other resources than us. We believe that our ability to offer customers a comprehensive and integrated substance dependence solution, including the utilization of innovative medical and psychosocial treatments, and our unique technology platform will enable us to compete effectively. However, there can be no assurance that we will not encounter more effective competition in the future, which would limit our ability to maintain or increase our business.

We compete with many types of substance dependence treatment methods, treatment facilities and other service providers, many of whom are more established and better funded than we are. There are approximately 13,500 facilities reporting to the SAMHSA that provide substance abuse treatment on an inpatient or outpatient basis. Well known examples of residential treatment programs include the Betty Ford Center®, Caron Foundation®, Hazelden® and Sierra Tucson®. In addition, individual physicians may provide substance dependence treatment in the course of their practices. Many of these other treatment methods and facilities are well established in the same markets we target, have substantial sales volume, and are provided and marketed by companies with much greater financial resources, facilities, organization, reputation and experience than we have.

Our competitors may develop and introduce new processes and products that are equal or superior to our programs in treating alcohol and substance dependencies. Accordingly, we may be adversely affected by any new processes and technology developed by our competitors.

We depend on key personnel, the loss of which could impact the ability to manage our business.

Our future success depends on the performance of our senior management and operating personnel.

The loss of the services of any key member of management and operating personnel could have a material adverse effect on our ability to manage our business.

We may be subject to future litigation, which could result in substantial liabilities that may exceed our insurance coverage.

All significant medical treatments and procedures, including treatment utilizing our programs, involve the risk of serious injury or death. Even under proper medical supervision, withdrawal from alcohol may cause severe physical reactions. While we have not been the subject of any such claims, our business entails an inherent risk of claims for personal injuries and substantial damage awards. We cannot control whether individual physicians will apply the appropriate standard of care in determining how to treat their patients. While our agreements typically require physicians to indemnify us for their negligence, there can be no assurance they will be willing and financially able to do so if claims are made. In addition, our license agreements require us to indemnify physicians, hospitals or their affiliates for losses resulting from our negligence.

We currently have insurance coverage for personal injury claims, directors' and officers' liability insurance coverage, and errors and omissions insurance. We may not be able to maintain adequate liability insurance at acceptable costs or on favorable terms. We expect that liability insurance will be more difficult to obtain and that premiums will increase over time and as the volume of patients treated with our programs increases. In the event of litigation, we may sustain significant damages or settlement expense (regardless of a claim's merit), litigation expense and significant harm to our reputation.

If third-party payors fail to provide coverage and adequate payment rates for our programs, our revenue and prospects for profitability will be harmed.

Our future revenue growth will depend in part upon our ability to contract with health plans and other third-party payors for our On*Trak* program. To date, we have not received a significant amount of revenue from our On*Trak* substance dependence programs from health plans and other third-party payors, and acceptance of our On*Trak* substance dependence programs is critical to the future prospects of our business. In addition, third-party payors are increasingly attempting to contain healthcare costs, and may not cover or provide adequate payment for our programs. Adequate third-party reimbursement might not be available to enable us to realize an appropriate return on investment in research and product development, and the lack of such reimbursement could have a material adverse effect on our operations and could adversely affect our revenues and earnings.

We may not be able to achieve promised savings for our On*Trak* contracts, which could result in pricing levels insufficient to cover our costs or ensure profitability.

We anticipate that many of our On*Trak* contracts will be based upon anticipated or guaranteed levels of savings for our customers and achieving other operational metrics resulting in incentive fees based on savings. If we are unable to meet or exceed promised savings or achieve agreed upon operational metrics, or favorably resolve contract billing and interpretation issues with our customers, we may be required to refund from the amount of fees paid to us any difference between savings that were guaranteed and the savings, if any, which were actually achieved; or we may fail to earn incentive fees based on savings. Accordingly, during or at the end of the contract terms, we may be required to refund some or all of the fees paid for our services. This exposes us to significant risk that contracts negotiated and entered into may ultimately be unprofitable. In addition, managed care operations are at risk for costs incurred to provide agreed upon services under our program. Therefore, failure to anticipate or control costs could have materially adverse effects on our business.

Our ability to utilize net operating loss carryforwards may be limited.

As of December 31, 2014, we had net operating loss carryforwards (NOLs) of approximately $191 million for federal income tax purposes that will begin to expire in 2024. These NOLs may be used to offset future taxable income, to the extent we generate any taxable income, and thereby reduce or eliminate our future federal income taxes otherwise payable. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change as defined in Section 382. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percent over a three-year period. In the event that an ownership change has occurred, or were to occur, utilization of our NOLs would be subject to an annual limitation under Section 382 determined by multiplying the value of our stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in the Internal Revenue Code. Any unused annual limitation may be carried over to later years. We may be found to have experienced an ownership change under Section 382 as a result of events in the past or the issuance of shares of common stock, or a combination thereof. If so, the use of our NOLs, or a portion thereof, against our future taxable income may be subject to an annual limitation under Section 382, which may result in expiration of a portion of our NOLs before utilization.

Risks related to our intellectual property

Confidentiality agreements with employees, treating physicians and others may not adequately prevent disclosure of trade secrets and other proprietary information.

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

We may be subject to claims that we infringe the intellectual property rights of others, and unfavorable outcomes could harm our business.

Our future operations may be subject to claims, and potential litigation, arising from our alleged infringement of patents, trade secrets, trademarks or copyrights owned by other third parties. Within the healthcare, drug and bio-technology industry, many companies actively pursue infringement claims and litigation, which makes the entry of competitive products more difficult. We may experience claims or litigation initiated by existing, better-funded competitors and by other third parties. Court-ordered injunctions may prevent us from continuing to market existing products or from bringing new products to market and the outcome of litigation and any resulting loss of revenues and expenses of litigation may substantially affect our ability to meet our expenses and continue operations.

Risks related to our industry

The recently enacted healthcare reforms pose risks and uncertainties that may have a material adverse affect on our business.

There may be risks and uncertainties arising from the recently enacted healthcare reform and the implementing regulations that will be issued in the future. If we fail to comply with these laws or are unable to deal with these risks and uncertainties in an effective manner, our financial condition and results of operations could be adversely affected.

Our policies and procedures may not fully comply with complex and increasing regulation by state and federal authorities, which could negatively impact our business operations.

The healthcare industry is highly regulated and continues to undergo significant changes as third-party payors, such as Medicare and Medicaid, traditional indemnity insurers, managed care organizations and other private payors, increase efforts to control cost, utilization and delivery of healthcare services. Healthcare companies are subject to extensive and complex federal, state and local laws, regulations and judicial decisions. Our failure, or the failure of our treating physicians, to comply with applicable healthcare laws and regulations may result in the imposition of civil or criminal sanctions that we cannot afford, or require redesign or withdrawal of our programs from the market.

We or our healthcare professionals may be subject to regulatory, enforcement and investigative proceedings, which could adversely affect our financial condition or operations.

We or one or more of our healthcare professionals could become the subject of regulatory, enforcement, or other investigations or proceedings, and our relationships, business structure, and interpretations of applicable laws and regulations may be challenged. The defense of any such challenge could result in substantial cost and a diversion of management's time and attention. In addition, any such challenge could require significant changes to how we conduct our business and could have a material adverse effect on our business, regardless of whether the challenge ultimately is successful. If determination is made that we or one or more of our healthcare professionals has failed to comply with any applicable laws or regulations, our business, financial condition and results of operations could be adversely affected.

Our business practices may be found to constitute illegal fee-splitting or corporate practice of medicine, which may lead to penalties and adversely affect our business.

Many states, including California where our principal executive offices and our managed professional medical corporation are located, have laws that prohibit business corporations, such as us, from practicing medicine, exercising control over medical judgments or decisions of physicians or other health care professionals (such as nurses or nurse practitioners), or engaging in certain business arrangements with physicians or other health care professionals, such as employment of physicians and other health care professionals or fee-splitting. The state laws and regulations and administrative and judicial decisions that enumerate the specific corporate practice and fee-splitting rules vary considerably from state to state and are enforced by both the courts and government agencies, each with broad discretion. Courts, government agencies or other parties, including physicians, may assert that we are engaged in the unlawful corporate practice of medicine, fee-splitting, or payment for referrals by providing administrative and other services in connection with our treatment programs. As a result of such allegations, we could be subject to civil and criminal penalties, our contracts could be found invalid and unenforceable, in whole or in part, or we could be required to restructure our contractual arrangements. If so, we may be unable to restructure our contractual arrangements on favorable terms, which would adversely affect our business and operations.

Our business practices may be found to violate anti-kickback, physician self-referral or false claims laws, which may lead to penalties and adversely affect our business.

The healthcare industry is subject to extensive federal and state regulation with respect to kickbacks, physician self-referral arrangements, false claims and other fraud and abuse issues.

The federal anti-kickback law (the "Anti-Kickback Law") prohibits, among other things, knowingly and willfully offering, paying, soliciting, receiving, or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing, arranging for, or recommending of an item or service that is reimbursable, in whole or in part, by a federal health care program. "Remuneration" is broadly defined to include anything of value, such as, for example, cash payments, gifts or gift certificates, discounts, or the furnishing of services, supplies, or equipment. The Anti-Kickback Law is broad, and it prohibits many arrangements and practices that are lawful in businesses outside of the health care industry.

Recognizing the breadth of the Anti-Kickback Law and the fact that it may technically prohibit many innocuous or beneficial arrangements within the health care industry, the Office of Inspector General (“OIG”) has issued a series of regulations, known as the “safe harbors.” Compliance with all requirements of a safe harbor immunizes the parties to the business arrangement from prosecution under the Anti-Kickback Law. The failure of a business arrangement to fit within a safe harbor does not necessarily mean that the arrangement is illegal or that the OIG will pursue prosecution. Still, in the absence of an applicable safe harbor, a violation of the Anti-Kickback Law may occur even if only one purpose of an arrangement is to induce referrals. The penalties for violating the Anti-Kickback Law can be severe. These sanctions include criminal and civil penalties, imprisonment, and possible exclusion from the federal health care programs. Many states have adopted laws similar to the Anti-Kickback Law, and some apply to items and services reimbursable by any payor, including private insurers.

In addition, the federal ban on physician self-referrals, commonly known as the Stark Law, prohibits, subject to certain exceptions, physician referrals of Medicare patients to an entity providing certain “designated health services” if the physician or an immediate family member of the physician has any financial relationship with the entity. A “financial relationship” is created by an investment interest or a compensation arrangement. Penalties for violating the Stark Law include the return of funds received for all prohibited referrals, fines, civil monetary penalties, and possible exclusion from the federal health care programs. In addition to the Stark Law, many states have their own self-referral bans, which may extend to all self-referrals, regardless of the payor.

The federal False Claims Act imposes liability on any person or entity that, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment to the federal government. Under the False Claims Act, a person acts knowingly if he has actual knowledge of the information or acts in deliberate ignorance or in reckless disregard of the truth or falsity of the information. Specific intent to defraud is not required. Violations of other laws, such as the Anti-Kickback Law or the FDA prohibitions against promotion of off-label uses of drugs, can lead to liability under the federal False Claims Act. The qui tam provisions of the False Claims Act allow a private individual to bring an action on behalf of the federal government and to share in any amounts paid by the defendant to the government in connection with the action. The number of filings of qui tam actions has increased significantly in recent years. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of between $5,500 and $11,000 for each false claim. Conduct that violates the False Claims Act may also lead to exclusion from the federal health care programs. Given the number of claims likely to be at issue, potential damages under the False Claims Act for even a single inappropriate billing arrangement could be significant. In addition, various states have enacted similar laws modeled after the False Claims Act that apply to items and services reimbursed under Medicaid and other state health care programs, and, in several states, such laws apply to claims submitted to all payors.

On May 20, 2009, the Federal Enforcement and Recovery Act of 2009, or FERA, became law, and it significantly amended the federal False Claims Act. Among other things, FERA eliminated the requirement that a claim must be presented to the federal government. As a result, False Claims Act liability extends to any false or fraudulent claim for government money, regardless of whether the claim is submitted to the government directly, or whether the government has physical custody of the money. FERA also specifically imposed False Claims Act liability if an entity “knowingly and improperly avoids or decreases an obligation to pay or transmit money or property to the Government.” As a result, the knowing and improper failure to return an overpayment can serve as the basis for a False Claims Act action. In March 2010, Congress passed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, collectively the ACA, which also made sweeping changes to the federal False Claims Act. The ACA also established that Medicare and Medicaid overpayments must be reported and returned within 60 days of identification or when any corresponding cost report is due.

Finally, the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations created the crimes of health care fraud and false statements relating to health care matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including a private insurer. The false statements statute prohibits knowingly and willfully falsifying, concealing, or covering up a material fact or making any materially false, fictitious, or fraudulent statement in connection with the delivery of or payment for health care benefits, items, or services. A violation of this statute is a felony and may result in fines, imprisonment, or exclusion from the federal health care programs.

Federal or state authorities may claim that our fee arrangements, our agreements and relationships with contractors, hospitals and physicians, or other activities violate fraud and abuse laws and regulations. If our business practices are found to violate any of these laws or regulations, we may be unable to continue with our relationships or implement our business plans, which would have an adverse effect on our business and results of operations. Further, defending our business practices could be time consuming and expensive, and an adverse finding could result in substantial penalties or require us to restructure our operations, which we may not be able to do successfully.

Our business practices may be subject to state regulatory and licensure requirements.

Our business practices may be regulated by state regulatory agencies that generally have discretion to issue regulations and interpret and enforce laws and rules. These regulations can vary significantly from jurisdiction to jurisdiction, and the interpretation of existing laws and rules also may change periodically. Some of our business and related activities may be subject to state health care-related regulations and requirements, including managed health care, utilization review (UR) or third-party administrator-related regulations and licensure requirements. These regulations differ from state to state, and may contain network, contracting, and financial and reporting requirements, as well as specific standards for delivery of services, payment of claims, and adequacy of health care professional networks. If a determination is made that we have failed to comply with any applicable state laws or regulations, our business, financial condition and results of operations could be adversely affected.

We may be subject to healthcare anti-fraud initiatives, which may lead to penalties and adversely affect our business.

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

Our use and disclosure of patient information is subject to privacy and security regulations, which may result in increased costs.

In conducting research or providing administrative services to healthcare providers in connection with the use of our treatment programs, we may collect, use, disclose, maintain and transmit patient information in ways that will be subject to many of the numerous state, federal and international laws and regulations governing the collection, use, disclosure, storage, privacy and security of patient-identifiable health information, including the administrative simplification requirements of the Health Insurance Portability and Accountability Act of 1996 and its implementing regulations (HIPAA) and the Health Information Technology for Economic and Clinical Health Act of 2009 (HITECH). The HIPAA Privacy Rule restricts the use and disclosure of patient information (“Protected Health Information” or “PHI”), and requires safeguarding that information. The HIPAA Security Rule and HITECH establish elaborate requirements for safeguarding PHI transmitted or stored electronically. HIPAA applies to covered entities, which may include healthcare facilities and also includes health plans that will contract for the use of our programs and our services. HIPAA and HITECH require covered entities to bind contractors that use or disclose protected health information (or “Business Associates”) to compliance with certain aspects of the HIPAA Privacy Rule and all of the HIPAA Security Rule. In addition to contractual liability, Business Associates are also directly subject to regulation by the federal government. Direct liability means that we are subject to audit, investigation and enforcement by federal authorities. HITECH imposes new breach notification obligations requiring us to report breaches of “Unsecured Protected Health Information” or PHI that has not been encrypted or destroyed in accordance with federal standards. Business Associates must report such breaches so that their covered entity customers may in turn notify all affected patients, the federal government, and in some cases, local or national media outlets. We may be required to indemnify our covered entity customers for costs associated with breach notification and the mitigation of harm resulting from breaches that we cause. If we are providing management services that include electronic billing on behalf of a physician practice or facility that is a covered entity, we may be required to conduct those electronic transactions in accordance with the HIPAA regulations governing the form and format of those transactions. Services provided under our Catasys program not only require us to comply with HIPAA and HITECH but also Title 42 Part 2 of the Code of Federal Regulations (“Part 2”). Part 2 is a federal, criminal law that severely restricts our ability to use and disclose drug and alcohol treatment information obtained from federally-supported treatment facilities. Our operations must be carefully structured to avoid liability under this law. Our Catasys program qualifies as a federally funded treatment facility which requires us to disclose information on members only in compliance with Title 42. In addition to the federal privacy regulations, there are a number of state laws governing the privacy and security of health and personal information. The penalties for violation of these laws vary widely and the area is rapidly evolving. We believe that we have taken the steps required of us to comply with health information privacy and security laws and regulations in all jurisdictions, both state and federal. However, we may not be able to maintain compliance in all jurisdictions where we do business. Failure to maintain compliance, or changes in state or federal privacy and security laws could result in civil and/or criminal penalties and could have a material adverse effect on our business, including significant reputational damage associated with a breach. If regulations change or it is determined that we are not in compliance with privacy regulations we may be required to modify aspects of our program which may adversely affect program results and our business or profitability. Under HITECH, we are subject to prosecution or administrative enforcement and increased civil and criminal penalties for non-compliance, including a new, four-tiered system of monetary penalties. We are also subject to enforcement by state attorneys general who were given authority to enforce HIPAA under HITECH.

Certain of our professional healthcare employees, such as nurses, must comply with individual licensing requirements.

All of our healthcare professionals who are subject to licensing requirements, such as our care coaches, are licensed in the state in which they provide professional services in person. While we believe our nurses provide coaching and not professional services, one or more states may require our healthcare professionals to obtain licensure if providing services telephonically across state lines to the state's residents. Healthcare professionals who fail to comply with these licensure requirements could face fines or other penalties for practicing without a license, and we could be required to pay those fines on behalf of our healthcare professionals. If we are required to obtain licenses for our nurses in states where they provide telephonic coaching it would significantly increase the cost of providing our product. In addition, new and evolving agency interpretations, federal or state legislation or regulations, or judicial decisions could lead to the implementation of out-of-state licensure requirements in additional states, and such changes would increase the cost of services and could have a material effect on our business.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business, prevent us from accessing critical information or expose us to liability, which could adversely affect our business and our reputation.

In the ordinary course of our business, we collect and store sensitive data, including legally protected patient health information, personally identifiable information about our employees, intellectual property, and proprietary business information. We manage and maintain our applications and data utilizing an off-site co-location facility. These applications and data encompass a wide variety of business critical information including research and development information, commercial information and business and financial information.

The secure processing, storage, maintenance and transmission of this critical information is vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take measures to protect sensitive information from unauthorized access or disclosure, our information technology and infrastructure may be vulnerable to attaches by hackers; viruses, breaches or interruptions due to employee error or malfeasance, terrorist attacks, earthquakes, fire, flood, other natural disasters, power loss, computer systems failure, data network failure, Internet failure, or lapses in compliance with privacy and security mandates. Any such virus, breach or interruption could compromise our networks and the information stored there could be accessed by unauthorized parties, publicly disclosed, lost or stolen. We have measures in place that are designed to detect and respond to such security incidents and breaches of privacy and security mandates. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, such as HIPAA, government enforcement actions and regulatory penalties. We may also be required to indemnify our customers for costs associated with having their data on our system breached. Unauthorized access, loss or dissemination could also interrupt our operations, including our ability to bill our customers, provide customer support services, conduct research and development activities, process and prepare company financial information, manage various general and administrative aspects of our business and damage our reputation, or we may lose one or more of our customers, especially if they felt their data may be breached, any of which could adversely affect our business.

Risks related to our common stock

Our common stock has limited trading volume, and it is therefore susceptible to high price volatility.

Our common stock is traded on the OTCQB under the symbol "CATS" and has limited trading volume. As such, our common stock is more susceptible to significant and sudden price changes than stocks that are widely followed by the investment community and actively traded on an exchange. The liquidity of our common stock depends upon the presence in the marketplace of willing buyers and sellers. We cannot assure you that you will be able to find a buyer for your shares. In the future, if we successfully list the common stock on a securities exchange or obtain trading authorization, we will not be able to assure you that an organized public market for our securities will develop or that there will be any private demand for the common stock. We could also subsequently fail to satisfy the standards for continued national securities exchange trading, such as standards having to do with a minimum share price, the minimum number of public shareholders or the aggregate market value of publicly held shares. Any holder of our securities should regard them as a long-term investment and should be prepared to bear the economic risk of an investment in our securities for an indefinite period.

Our common stock is considered a "penny stock" and may be difficult to sell.

Our common stock is subject to certain rules and regulations relating to "penny stock." Penny stocks are generally equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker−dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker−dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker−dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker−dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Since the Company's securities are subject to the penny stock rules, investors in the Company may find it more difficult to sell their securities.

Failure to maintain effective internal controls could adversely affect our operating results and the market for our common stock.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we maintain internal control over financial reporting that meets applicable standards. As with many smaller companies with small staff, material weaknesses in our financial controls and procedures may be discovered. If we are unable, or are perceived as unable, to produce reliable financial reports due to internal control deficiencies, investors could lose confidence in our reported financial information and operating results, which could result in a negative market reaction and adversely affect our ability to raise capital.

Approximately 77% of our outstanding common stock is beneficially owned by our chairman and chief executive officer, who has the ability to substantially influence the election of directors and other matters submitted to stockholders.

32,750, 31,315,373, and 56,792 shares are beneficially held of record by Reserva Capital, LLC, Crede CG III, Ltd. ("Crede III") and Bonmore, LLC, respectively, whose sole managing member is our Chairman and Chief Executive Officer, which represents beneficial ownership of approximately 77% of our outstanding shares of common stock. As a result, he has and is expected to continue to have the ability to significantly influence the election of our Board of Directors and the outcome of all other issues submitted to our stockholders. His interest may not always coincide with our interests or the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders. One consequence to this substantial influence or control is that it may be difficult for investors to remove management of our Company. It could also deter unsolicited takeovers, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

Our stock price may be subject to substantial volatility, and the value of our stockholders' investment may decline.

The price at which our common stock will trade may fluctuate as a result of a number of factors, including the number of shares available for sale in the market, quarterly variations in our operating results and actual or anticipated announcements of our On*Trak* Program, announcements regarding new or discontinued On*Trak* Program contracts, new products or services by us or competitors, regulatory investigations or determinations, acquisitions or strategic alliances by us or our competitors, recruitment or departures of key personnel, the gain or loss of significant customers, changes in the estimates of our operating performance, actual or threatened litigation, market conditions in our industry and the economy as a whole.

Numerous factors, including many over which we have no control, may have a significant impact on the market price of our common stock, including:

- announcements of new products or services by us or our competitors;
- current events affecting the political, economic and social situation in the United States and other countries where we operate;
- trends in our industry and the markets in which we operate;
- changes in financial estimates and recommendations by securities analysts;
- acquisitions and financings by us or our competitors;
- the gain or loss of a significant customer;
- quarterly variations in operating results;
- the operating and stock price performance of other companies that investors may consider to be comparable;
- purchases or sales of blocks of our securities; and
- issuances of stock.

Furthermore, stockholders may initiate securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management.

Future sales of common stock by existing stockholders, or the perception that such sales may occur, could depress our stock price.

The market price of our common stock could decline as a result of sales by, or the perceived possibility of sales by, our existing stockholders. We have completed a number of private placements of our common stock and other securities over the last several years, and we have effective resale registration statements pursuant to which the purchasers can freely resell their shares into the market. In addition, most of our outstanding shares are eligible for public resale pursuant to Rule 144 under the Securities Act of 1933, as amended. As of March 30, 2015, approximately 20.5 million shares of our common stock are held by our affiliates and may be sold pursuant to an effective registration statement or in accordance with the volume and other limitations of Rule 144 or pursuant to other exempt transactions. Future sales of common stock by significant stockholders, including those who acquired their shares in private placements or who are affiliates, or the perception that such sales may occur, could depress the price of our common stock.

Future issuances of common stock and hedging activities may depress the trading price of our common stock.

Any future issuance of equity securities, including the issuance of shares upon direct registration, upon satisfaction of our obligations, compensation of vendors, exercise of outstanding warrants, or effectuation of a reverse stock split, could dilute the interests of our existing stockholders, and could substantially decrease the trading price of our common stock. As of March 30, 2015, we have outstanding options to purchase approximately 1,648,124 shares of our common stock and warrants to purchase approximately 21,461,570 shares of our common stock at prices ranging from $0.58 to $3,200.00 per share. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy, in connection with acquisitions, to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

In the future, we may need to raise additional funds through public or private financing, which might include sales of equity securities. The issuance of any additional shares of common stock or securities convertible into, exchangeable for, or that represent the right to receive common stock or the exercise of such securities could be substantially dilutive to holders of our common stock. Holders of shares of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. The market price of our common stock could decline as a result of sales of shares of our common stock made after this offering or the perception that such sales could occur. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their interests in us.

Provisions in our certificate of incorporation and Delaware law could discourage a change in control, or an acquisition of us by a third party, even if the acquisition would be favorable to you.

Our certificate of incorporation and the Delaware General Corporation Law contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our Company, even when these attempts may be in the best interests of stockholders. For example, our certificate of incorporation also authorizes our Board of Directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Delaware law also imposes conditions on certain business combination transactions with “interested stockholders.” These provisions and others that could be adopted in the future could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

We do not expect to pay dividends in the foreseeable future.

We have paid no cash dividends on our common stock to date, and we intend to retain our future earnings, if any, to fund the continued development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Further, any payment of cash dividends will also depend on our financial condition, results of operations, capital requirements and other factors, including contractual restrictions to which we may be subject, and will be at the discretion of our Board of Directors.

A number of our outstanding warrants contain anti-dilution provisions that, if triggered, could cause substantial dilution to our then-existing stockholders and adversely affect our stock price.

A number of our outstanding warrants 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 our warrants, the exercise price, or in the case of some of our warrants the exercise price and number of shares of common stock, will be reduced. If our available funds and cash generated from operations are insufficient to satisfy our liquidity requirements in the future, then we may need to raise substantial additional funds in the future to support our working capital requirements and for other purposes. If shares of our common stock or securities exercisable for our common stock are issued in consideration of such funds at an effective per share price lower than our existing warrants, then the anti-dilution provisions would be triggered, thus possibly causing substantial dilution to our then-existing shareholders if such warrants are exercised. Such anti-dilution provisions may also make it more difficult to obtain financing.

The exercise of our outstanding warrants may result in a dilution of our current stockholders' voting power and an increase in the number of shares eligible for future resale in the public market which may negatively impact the market price of our stock.

The exercise of some or all of our outstanding warrants could significantly dilute the ownership interests of our existing stockholders. As of March 30, 2015, we had outstanding warrants to purchase an aggregate of 21,461,570 shares of common stock at exercise prices ranging from $0.58 to $80.00 per share. To the extent warrants are exercised, additional shares of common stock will be issued, and such issuance may dilute existing stockholders and increase the number of shares eligible for resale in the public market.

In addition to the dilutive effects described above, the exercise of those warrants would lead to a potential increase in the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our shares.

Certain investors are parties to securities purchase agreements with the Company that would permit them to receive additional shares of our common stock upon a reverse stock split, which could cause substantial dilution to our then-existing stockholders.

The Company has entered into securities purchase agreements with several investors which 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 securities purchase agreement (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"). In the event that the Company issues such Adjustment Shares this could cause substantial dilution to our then-existing shareholders. This provision could also make it more difficult to obtain financing.

ITEM 1 B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

Information concerning our principal facilities, all of which were leased at December 31, 2014, is set forth below:

Location	Use	Approximate Area in Square Feet
11601 Wilshire Blvd. Los Angeles, California 90025	Principal executive and administrative offices	9,100

Our principal executive and administrative offices are located in Los Angeles, California, and consists of leased office space totaling approximately 9,100 square feet, which will expire in April 2019. Our base rent is approximately $29,000 per month, subject to annual adjustments, with aggregate minimum lease commitments at March 30, 2015, totaling approximately $1.6 million. In March 2015, we entered into an amendment to our existing lease agreement for a new office space of approximately 9,120 square feet within the same building. The annual rent for the new office space remains unchanged and we expect to move in on or about June 1, 2015.

We believe that the current office space is adequate to meet our needs.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY AND DISCLOSURE

Not Applicable.

PART II

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

Market Information

Our common stock is quoted on the OTCQB under the symbol "CATS." The last reported bid price for our common stock on the OTCQB on March 30, 2015 was $1.85 per share.

The table below sets forth the high and low bid prices for our common stock as reported on the OTCQB during the periods indicated, with prices prior to May 6, 2013 adjusted to account for our 1-for-10 reverse stock split that occurred on that date. The quotations below, as provided by OTC Markets Group, Inc., reflect inter-dealer prices and do not include retail markup, markdown or commissions. In addition, these quotations may not necessarily represent actual transactions.

	Bid Price	
2014	High	Low
4th Quarter	$ 2.30	$ 1.56
3rd Quarter	2.29	1.51
2nd Quarter	2.05	0.78
1st Quarter	1.60	0.77

	Bid Price	
2013	High	Low
4th Quarter	$ 1.17	$ 0.75
3rd Quarter	1.36	0.81
2nd Quarter	1.39	0.80
1st Quarter	1.40	0.80

Stockholders

As of March 30, 2015, there were approximately 61 stockholders of record of our 25,320,540 outstanding shares of common stock.

Dividends

We have never declared or paid dividends on our common stock and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Payment of cash dividends, if any, in the future will be at the discretion of our board of directors and will depend on applicable law and then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business.

Unregistered Sales of Securities

None.

Issuer Purchase of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed due to factors such as, among others, limited operating history, difficulty in developing, exploiting and protecting proprietary technologies, intense competition and substantial regulation in the healthcare industry. Additional information concerning factors that could cause or contribute to such differences can be found in the following discussion, as well as in Item 1.A. -"Risk Factors."

OVERVIEW

General

We provide specialized healthcare management services to health plans and other third party payors through our On*Trak* program. Our On*Trak* program is designed to improve member health and at the same time lower costs to the insurer for underserved populations where behavioral health conditions are exacerbating co-existing medical conditions. The program utilizes member engagement and patient centric treatment that integrates evidence based medical and psychosocial interventions along with care coaching in a 52-week outpatient program. Our initial focus has been members with substance use disorders, but we have plans to expand into other behavioral health conditions, including anxiety and depression. We currently operate our On*Trak* for substance dependence program in Florida, Kansas, Kentucky, Louisiana, Massachusetts, New Jersey, Oklahoma, West Virginia and Wisconsin.

Our Strategy

Our business strategy is to provide a quality integrated medical and behavioral program to help health plans and other organizations treat and manage health plan members who's behavioral health conditions are exaserbating co-existing medical conditions resulting in increased in-patient medical costs. We have initially focused on members with substance use disorders. We intend to grow our business through increased adoption by health plans and other payors of our On*Trak* program for substance dependence, as well as expansion into other populations with high costs driven by other behavioral health conditions.

Key elements of our business strategy include:

- Demonstrating the potential for improved clinical outcomes and reduced cost associated with using our On*Trak* program with key managed care and other third-party payors;
- Educating third-party payors on the disproportionately high cost of their substance dependent population;
- Providing our On*Trak* program to third-party payors for reimbursement on a case rate, fee for service, or monthly fee basis; and
- Generating outcomes data from our On*Trak* program to demonstrate improved health and cost reductions, and utilize outcomes data to facilitate broader adoption.

As an early entrant into offering integrated medical and behavioral programs for substance dependence, we believe we will be well positioned to address increasing market demand. We believe our On*Trak* program will help fill the gap that exists today: a lack of programs that focus on smaller populations with disproportionately higher costs driven by behavioral health conditions to improve their health while reducing overall health care costs.

Reporting Segment

We manage and report our operations through one business segment: healthcare services. The healthcare services segment includes On*Trak* and its integrated substance dependence solutions marketed to health plans and other third party payors through a network of licensed and company managed healthcare providers.

We have discontinued our license and management fees segment. The operations were shut down effective April 1, 2014 and all of the assets were absorbed by the Company.

Summary financial information for our reportable segment is as follows:

Results of Operations

The table below and the discussion that follows summarize our results of operations and certain selected operating statistics for the last two fiscal years ended December 31, 2014 and 2013:

(In thousands, except per share amounts)	**Twelve Months Ended December 31, 2014**	**2013**
Revenues		
Healthcare services revenues	$ 2,030	$ 754
Operating expenses		
Cost of healthcare services	1,301	650
General and administrative	6,302	5,426
Depreciation and amortization	113	23
Total operating expenses	7,716	6,099
Loss from operations	(5,686)	(5,345)
Interest and other income	1,194	107
Interest expense	(2,778)	(3,069)
Change in fair value of warrant liability	(19,854)	5,392
Loss from continuing operations before provision for income taxes	(27,124)	(2,915)
Provision for income taxes	9	9
Loss from continuing operations	$ (27,133)	$ (2,924)
Loss from discontinued operations, net of income taxes	$ (213)	$ (1,755)
Loss	$ (27,346)	$ (4,679)
Basic and diluted net loss from continuing operations per share:	$ (1.21)	$ (0.20)
Basic weighted number of shares outstanding	22,353	14,604
Basic and diluted net loss from discontinued operations per share:	$ (0.01)	$ (0.12)
Basic weighted number of shares outstanding	22,353	14,604

Year ended December 31, 2014 compared with year ended December 31, 2013

Summary of Consolidated Operating Results

Loss from continuing operations before provision for income taxes for the twelve months ended December 31, 2014 was $27.1 million compared with $2.9 million for the twelve months ended December 31, 2013. The increase in loss from continuing operations was primarily due to an increase in revenue of $1.3 million and a decrease in fair value of warrants of $25.2 million.

Revenues

As of December 31, 2014, seven healthcare services contracts were operational resulting in a significant increase in the number of patients being treated compared with the same period in 2013. Recognized revenue increased by $1.3 million, or 169% for the period ended December 31, 2014, compared with the same period in 2013. Some of the revenue related to these contracts is initially recorded to deferred revenue as the revenue is subject to performance guarantees, or in the case of case rates received upon enrollment, recognized ratably over the period of enrollment.

Operating Expenses

Cost of Healthcare Services

Cost of healthcare services consists primarily of salaries related to our care coaches, healthcare provider claims payments to our network of physicians and psychologists, and fees charged by our third party administrators for processing these claims. The increase of $651,000 in cost of healthcare services for the year ended December 31, 2014 compared with the same period in 2013, relates primarily to the increase in members being treated, the mix in members treated, and the addition of care coaches and clinical care coordinators to our staff to manage the increasing number of customers we serve, as well as the increased numbers of enrolled members.

General and Administrative Expenses

Total general and administrative expense increased by $876,000 for the year ended December, 31, 2014, compared with the same period in 2013. The increase was due primarily to an increase in salaries and benefits expense as a result of us hiring more employees to service our increased number of contracts, and investor relations services.

Depreciation and Amortization

Depreciation and amortization was immaterial for the years ended December 31, 2014 and 2013.

Other Income

The increase of $1.1 million in other income relates to the write off of all balances in accounts payable and accrued liabilities related to a liability under a previous research contract on which the statute of limitations expired during the year ending December 31, 2014.

Interest Expense

Interest expense for the year ended December 31, 2014 decreased by $291,000 compared with the same period in 2013. The expense is directly related to the multiple financings that were done during 2014 and 2013.

Change in Fair Value of 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, October 2013, January 2014, and May 2014. The warrants are being accounted for as liabilities in accordance with Financial Accounting Standards Board ("FASB") accounting rules, due to anti-dilution 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.

Liquidity and Capital Resources

Liquidity and Going Concern

As of March 30, 2015, we had a balance of approximately $84,000 cash on hand. We had working capital deficit of approximately $1.5 million at December 31, 2014 and have continued to deplete our cash position subsequent to December 31, 2014. We have incurred significant net losses and negative operating cash flows since our inception. We expect to 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 our operations into April 2015; however delays in cash collections, revenue, or unforeseen expenditures could impact this estimate. We are in need of additional capital, however, there is no assurance that additional capital can be timely raised in an amount which is sufficient for us or on terms favorable to us and our stockholders, if at all. If we do not obtain additional capital, there is a significant doubt as to whether we can continue to operate as a going concern and we will need to curtail or cease operations or seek bankruptcy relief. If we discontinue operations, we may not have sufficient funds to pay any amounts to our stockholders.

In December 2014, we entered into securities purchase agreements with several investors, including Crede CG III, Ltd. ("Crede III"), an affiliate of Mr. Peizer, our Chairman and Chief Executive Officer, and Steve Gorlin, a member of our Board of Directors, relating to the sale and issuance of an aggregate of 550,000 shares of common stock, for aggregate gross proceeds of approximately $1,100,000.

In September 2014, we entered into securities purchase agreements with several investors, relating to the sale and issuance of an aggregate of 750,000 shares of common stock, for aggregate gross proceeds of approximately $1,500,000.

In May 2014, we entered into securities purchase agreements with several accredited investors, including Crede III and Shamus, LLC, a company owned by David E. Smith, a member of our board of directors, relating to the sale and issuance of an aggregate of 2,586,210 shares of common stock, and warrants to purchase an aggregate of 2,586,210 shares of Common Stock at an exercise price of $0.58 per share (the "May Warrants") for an aggregate gross proceeds of approximately $1,500,000. The May Warrants expire in May 2019, 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 May Warrants, the exercise price of the May Warrants will be reduced to such lower price, subject to customary exceptions.

In January 2014, we entered into securities purchase agreements with several investors, including Crede III, relating to the sale and issuance of an aggregate of 1,724,141 shares of common stock, and warrants to purchase an aggregate of 1,724,141 shares of common stock at an exercise price of $0.58 per share (the "January Warrants") for aggregate gross proceeds of approximately $1,000,000. The January Warrants expire in January 2019, 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 January Warrants, the exercise price of the January Warrants will be reduced to such lower price, subject to customary exceptions.

Our ability to fund our ongoing operations and continue as a going concern is dependent on signing new contracts and generating fees from existing and new contracts for our managed care programs and the success of management's plans to increase revenue and continue to control expenses. We currently operate our On*Trak* for substance dependence program in Florida, Kansas, Kentucky, Louisiana, Massachusetts, New Jersey, Oklahoma, West Virginia and Wisconsin. In the fourth quarter of 2014 we commenced enrollment of our On*Trak* program in Florida and New Jersey. The launch of the Florida program represented an expansion of an existing customer relationship. In the first quarter of 2015 we expanded our Wisconsin program with a national health plan to include their Medicare Advantage members. In addition, we signed an agreement with a new customer in Illinois, which is anticipated to commence enrollment in the second quarter of 2015, and an existing customer in Kansas to expand to our On*Trak* for anxiety program. The agreement to include On*Trak* for anxiety represents our first agreement for this product. We have generated fees from the launched programs and expect to increase enrollment and fees throughout 2015. However, there can be no assurance that we will generate such fees. We are in need of additional capital, however, there is no assurance that additional capital can be timely raised in an amount which is sufficient for us or on terms favorable to us and our stockholders, if at all. If we do not obtain additional capital, there is a significant doubt as to whether we can continue to operate as a going concern and we will need to curtail or cease operations or seek bankruptcy relief. If we discontinue operations, we may not have sufficient funds to pay any amounts to our stockholders.

Cash Flows

We used $5.1 million of cash from continuing operating activities during the year ended December 31, 2014 compared with $4.2 million during the same period in 2013. Significant non-cash adjustments to operating activities for the year ended December 31, 2014 included issuance costs of $2.8 million, a fair value adjustment on warrant liability of $19.9 million, offset by the write-off of accrued liabilities of $1.2 million.

Capital expenditures for the year ended December 31, 2014 were not material. Our future capital expenditure requirements will depend upon many factors, including obsolescence or failure of our systems, progress with expanding the adoption of our programs, and our marketing efforts, 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 $4.9 million for the year ended December 31, 2014, compared with net cash provided by financing activities of $4.2 million for the year ended December 31, 2013. Cash provided by financing activities for the twelve months ended December 31, 2014 consisted of the net proceeds from the securities offerings in January 2014, May 2014, September 2014 and December 2014, leaving a balance of $708,000 in cash and cash equivalents at December 31, 2014.

As discussed above, we currently expend cash at a rate of approximately $450,000 per month, excluding non-current accrued liability payments. We also anticipate cash inflow to increase during 2015 as we continue to service our executed contracts and sign new contracts. We expect our current cash resources to cover our operations into April 2015; however delays in cash collections, revenue, or unforeseen expenditures could impact this estimate. We are in need of additional capital, however, there is no assurance that additional capital can be timely raised in an amount which is sufficient for us or on terms favorable to us and our stockholders, if at all. If we do not obtain additional capital, there is a significant doubt as to whether we can continue to operate as a going concern and we will need to curtail or cease operations or seek bankruptcy relief. If we discontinue operations, we may not have sufficient funds to pay any amounts to our stockholders.

Off-Balance Sheet Arrangements

As of December 31, 2014, 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 related to share-based compensation expense, the impairment assessments for intangible assets, and estimation of the fair value of warrant liabilities involve our most significant judgments and estimates that are material to our consolidated financial statements. They are discussed further below.

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 expense from the amounts reported. The weighted average expected option term for 2014 and 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 retain terminated employees as part-time consultants upon their resignation from the Company. Because the employees continue to provide services to us, their options continue to vest in accordance with the original terms. Due to the change in classification of the option awards, the options are considered modified at the date of termination. The modifications are treated as exchanges of the original awards in return for the issuance of new awards. At the date of termination, the unvested options are no longer accounted for as employee awards and are 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 for the twelve months ended December 31, 2014 and 2013, respectively.

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 twelve months ended December 31, 2014, we did not acquire any new intangible assets and as of December 31, 2014, all of our intangible assets consisted of intellectual property, which is not subject to renewal or extension. We recorded no total impairment charges for the year ended December 31, 2014, compared with $795,000 for the same period in 2013.

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, October 2013, January 2014, and May 2014. The warrants are being accounted for as liabilities in accordance with Financial Accounting Standards Board ("FASB") accounting rules, due to anti-dilution 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 year ended December 31, 2014, we recorded a net loss of $19.9 million, compared with a net gain of $5.4 million for the same period in 2013 for the change in fair value of the warrant liability.

We will continue to mark the warrants to market value each reporting period, using the Black-Scholes pricing model until they are completely settled or expire.

Recently Issued or Newly Adopted Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update ("ASU") 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified restrospective approach to adoptions. Early adoption is permitted. We are currently evaluating the potential impact of this standard on our consolidated financial statements, as well as the available transition methods.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* ("ASU 2014-15"). ASU 2014-15 changes to the disclosure of uncertainties about an entity's ability to continue as a going concern. Under U.S. GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Because there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related note disclosures, there is diversity in practice whether, when, and how an entity discloses the relevant conditions and events in its financial statements. As a result, these changes require an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued. Substantial doubt is defined as an indication that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt, (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, (iii) management's plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management's plans that are intended to at least mitigate the conditions or events that raise substantial doubt, and (iv) if the latter in (iii) is disclosed, an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for periods beginning after December 15, 2016. The adoption of ASU 2013-15 will not have a material effect on our consolidated financial position or results of operations.

Effects of Inflation

Our most liquid assets are cash and cash equivalents. Because of their liquidity, these assets are not directly affected by inflation. Because we intend to retain and continue to use our equipment, furniture and fixtures and leasehold improvements, we believe that the incremental inflation related to replacement costs of such items will not materially affect our operations. However, the rate of inflation affects our expenses, such as those for employee compensation and contract services, which could increase our level of expenses and the rate at which we use our resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and related financial information required to be filed hereunder are indexed under Item 15 of this report and are incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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 the end of the period covered by this Annual Report on Form 10-K. 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

There were no changes in our internal controls over financial reporting during the fourth quarter of our year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) and for assessing the effectiveness of our internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with United States generally accepted accounting principles (GAAP).

Our internal control over financial reporting is supported by written policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that our receipts and expenditures are being made only in accordance with authorizations of our management and our Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based upon this assessment, our management believes that, as of December 31, 2014, our internal control over financial reporting was effective based on those criteria.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions and that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. OTHER INFORMATION

In February 2015, we granted to each of our non-employee directors as annual compensation for serving on our board an option to purchase 200,000 shares of our common stock. In addition, we granted to the Chairman of our Audit Committee an additional option to purchase 50,000 shares of our common stock. The options were granted under our 2010 Stock Incentive Plan, as amended. These options have a three-year vesting period with one-year vesting immediately and the remainder of the options vesting equally over the next 24 months, have an exercise price of $2.20, the closing bid price of our common stock on the OTCQB on the date of the grant, and they expire in February 2025. All unvested options will immediately vest in the event of termination without cause, are transferable upon death and will be exercisable for a period of ten years after the grantee ceases to be director.

In March 2015, Terren S. Peizer, our Chairman and Chief Executive Officer, loaned the company $200,000. No terms were discussed nor were any agreements executed in connection with such loan, but we currently contemplate that the $200,000 will either be paid back out of our next significant financing or invested into such financing.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table lists our executive officers and directors serving at March 30, 2015. Our executive officers are elected annually by our Board of Directors and serve at the discretion of the Board of Directors. Each current director is serving a term that will expire at the Company's next annual meeting. There are no family relationships among any of our directors or executive officers.

Name	Age	Position	Officer/ Director Since
Terren S. Peizer	55	Director, Chairman of the Board and Chief Executive Officer	2003
Richard A. Anderson	45	Director, President and Chief Operating Officer	2003
Susan Etzel	41	Chief Financial Officer	2011
Richard Berman	70	Director, and Chairman of the Audit Committee.	2014
Steven Kriegsman	72	Director, Chairman of the Compensation Committee, Member of the Corporate Governance Committee, and Member of the Audit Committee.	2014
David Smith	68	Director	2014
Marvin Igelman	52	Director, and Chairman of the Corporate Governance Committee, Member of the Compensation Committee, and Member of the Audit Committee	2014
Steve Gorlin	77	Director	2014

Terren S. Peizer is the founder of our Company and has served as our Chief Executive Officer and Chairman of our Board of Directors since our inception in February 2003. Since September 2009, he has served as the Chairman of Crede Capital Group, LLC, his personal investment vehicle, and industry leader in investing in micro and small capitalization equities, having invested over $1 billion directly into portfolio companies. Mr. Peizer has been the largest beneficial shareholder, and has held various senior executive positions with several technology, biotech, and healthcare services companies. He has assisted companies by assembling management teams, boards of directors and scientific advisory boards, and formulating business, capital formation, and investor relations strategies for the companies. Mr. Peizer has a background in venture capital, investing, mergers and acquisitions, corporate finance, and previously held senior executive positions with the investment banking firms Goldman Sachs, First Boston and Drexel Burnham Lambert. He received his B.S.E. in Finance from The Wharton School of Finance and Commerce.

We believe Mr. Peizers's qualifications to serve on our board of directors include his role as an investor and executive in several private and public companies, including numerous companies in the healthcare field. He has extensive knowledge and experience in the financial and healthcare industries, and provides extensive insight and experience with capital markets and publicly traded companies at all stages of development.

Richard A. Anderson has served as a director since July 2003 and as a member of our management team since April 2005. He has been our President and Chief Operating Officer since July 2008, in this role he has been primarily responsible for the creation of our managed care On*Trak* program. He has more than twenty years of experience in business development, strategic planning, operations, finance and management, with 15 years of that in the healthcare field. Prior to joining the Company, he held senior level financial and operational positions in healthcare and financial companies, and served as a director in PriceWaterhouseCoopers LLP's business assurance and transaction support practices. He received a B.A. in Business Economics from University of California, Santa Barbara.

We believe Mr. Anderson's qualifications to serve on the board of directors include his business and healthcare experience, including a diversified background as an executive and in operational roles in both public and private companies. His leadership of our product creation gives him a breadth of knowledge and valuable understanding of our business, operations and customers.

Susan Etzel, has served as the Company's Chief Financial Officer since July 2011 and prior to that was the Company's Corporate Controller since February 2011. Prior to joining the Company, she acted as the Controller of Clearant, Inc., a developer of a universal pathogen inactivation technology, from July 2005 until February 2011. Prior to joining the Clearant she held a senior level auditor position at Arthur Anderson LLP. She received a Bachelor of Business Economics with an emphasis in Accounting from the University of California, Santa Barbara. She is also a Certified Public Accountant.

Richard Berman is currently the President and Chief Executive Officer of LICAS, a K-12, College and University, Health Care consulting firm. In addition, he currently serves as Chairman of the board of directors of Emblem Health's Quality of Care Committee and a member of its Audit Committee. Mr. Berman is also an Entrepreneur in Residence at GaTech's ATDC and visiting professor at USF MUMA College of Business. He is an elected member of the Institute of Medicine of the National Academy of Sciences. Previously, he was a management consultant for McKinsey & Company, Executive Vice President of NYU Medical Center and Professor of Health Care Management at the NYU School of Medicine. He has also held various roles at Korn Ferry International, Howe-Lewis International, the New York Office of Health Systems Management, US Department of Health Education, and Welfare, and as the President of Manhattanville College. In 1995, Mr. Berman was selected by Manhattanville College to serve as its tenth President. Mr. Berman is credited with the turnaround of the College, where he served until 2009. In 2006, Mr. Berman was awarded a Fulbright Commission grant to travel to Uganda and provide strategic planning and leadership training to Kabale University. Mr. Berman has a Bachelor of Business Administration, an MBA and Master in Public Health.

We believe Mr. Berman's qualifications to serve on our board of directors include his extensive experience as an executive in several healthcare firms. In addition, as a board member of a health plan we believe he has an understanding of our customer base and current developments and strategies in the health insurance industry.

Steven Kriegsman has been CytRx's (NASDAQ: CYTR) President and Chief Executive Officer and director since July 2002. He also serves as a director of Galena Biopharma, Inc. (NASDAQ: GALE) and Chairman of Galena's Compensation and Transaction Committees. He previously served as Director and Chairman of Global Genomics from June 2000. Mr. Kriegsman is an inactive Chairman and Founder of Kriegsman Capital Group LLC, a financial advisory firm specializing inemerging growth companies in the healthcare industry. He previously served as a director and is the former Chairman of the Audit Committee of Bradley Pharmaceuticals, Inc. (NYSE, the company since has been sold). Mr. Kriegsman has a BS degree with honors from New York University in Accounting.

We believe Mr. Kriegsman's qualifications to serve on our board of directors include his experience in the healthcare industry, his previous experience in both public and private companies, and his experience serving as a director of several public companies.

David Smith is the President, Chief Executive Officer and Chief Investment Officer of the Trading Advisor. Mr. Smith was the founder and Chief Executive Officer of Coast Asset Management. Mr. Smith has worked in various capacities in the securities industry, including as Vice President of Security Pacific Bank , and Oppenheimer and Company as a bond arbitrageur, and he is also a successful investor in small cap growth companies. Mr. Smith has an MBA from the University of California at Berkeley.

We believe Mr. Smith's qualifications to serve on our board of directors include his extensive background in the banking and securities industries, as well as his experience in corporate governance and management.

Marvin Igelman, is the Chief Executive Officer of Sprylogics International Inc. (TSX: SPY), a leader in the semantic search technology sector and currently on the Board of Directors of Jamba Juice (NASDAQ: JMBA). Previously, he was Chief Executive Officer of Unomobi, Inc. a mobile advertising and messaging platform that was acquired in February 2010 by Poynt Corporation. Mr. Igelman was also founder, President and Chief Executive Officer of Brandera Inc., which operated Portfolios.com, a leading online business-to-business site for the Graphic Arts and creative community, and has served as a business development consultant for numerous technology companies, and established a number of other successful ventures. Mr. Igelman has a Bachelor of Laws from Osgoode Hall Law School.

We believe Mr. Igelman's qualifications to serve on our board of directors include his extensive business development experience, and his current and past executive experience in numerous private and publicly traded companies.

Steve Gorlin, is an entrepreneur who has founded numerous successful biotechnology and pharmaceutical companies over the last 40 years, including Medivation and Entremed. He currently serves as Executive Chairman to Conkwest, Inc. and served as Chairman of the Board of MiMedx, Inc., a wound care Company, from November 2006 to June 2013. Mr. Gorlin served many years on the Business Advisory Council to the Johns Hopkins School of Medicine as well as on the advisory board of the Johns Hopkins BioMedical Engineering Advisory Board.

We believe Mr. Gorlin's qualifications to serve on our board of directors include his experience in the healthcare industry, his extensive business development experience, and his current and past executive experience in numerous private and publicly traded companies.

Section 16(a) beneficial ownership reporting compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (Exchange Act), requires our directors and executive officers, and persons who own more than 10% of our outstanding common stock, to file with the SEC, initial reports of ownership and reports of changes in ownership of our equity securities. Such persons are required by SEC regulations to furnish us with copies of all such reports they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us regarding the filing of required reports, we believe that all Section 16(a) filing requirements applicable to our directors, executive officers and greater-than-ten-percent beneficial owners with respect to fiscal 2014 were met, except that an initial report of ownership will be filed late by each of Messrs. Berman, Kriegsman, Smith, Igelman, and Gorlin.

Code of Ethics

Our Board of Directors has adopted a code of ethics applicable to our chief executive officer, chief financial officer and persons performing similar functions. Our code of ethics is listed hereto as Exhibit 14.1 and is accessible on our website at http://www.catasys.com. Disclosure regarding any amendments to, or waivers from, provisions of the code of ethics will be included in a Current Report on Form 8-K within four business days following the date of the amendment waiver.

Independence of the Board of Directors

Our common stock is traded on the OTCQB. The Board of Directors has determined that a majority of the members of the Board of Directors qualify as "independent," as defined by the listing standards of the NASDAQ. Consistent with these considerations, after review of all relevant transactions and relationships between each director, or any of his family members, and the Company, its senior management and its independent auditors, the Board has determined further that Messrs. Berman, Kriegsman, Igelman, and Gorlin are independent under the listing standards of NASDAQ. In making this determination, the Board of Directors considered that there were no new transactions or relationships between its current independent directors and the Company, its senior management and its independent auditors since last making this determination.

Committees of the Board of Directors

Audit committee

During 2014, the audit committee consisted of three directors, Mr. Berman, Mr. Kriegsman and Mr. Igelman. The Board of Directors has determined that each of the members of the audit committee were independent as defined by the NASDAQ rules, meet the applicable requirements for audit committee members, including Rule 10A-3(b) under the Exchange Act, and Mr. Berman qualifies as an “audit committee financial expert” as defined by Item 401(h)(2) of Regulation S-K. The duties and responsibilities of the audit committee include (i) selecting, evaluating and, if appropriate, replacing our independent registered accounting firm, (ii) reviewing the plan and scope of audits, (iii) reviewing our significant accounting policies, any significant deficiencies in the design or operation of internal controls or material weakness therein and any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation and (iv) overseeing related auditing matters.

Nominations and governance committee

The nominations and governance committee consists of up to three directors who are independent as defined by the NASDAQ rules. During 2014, the committee consisted of Mr. Igelman and Mr. Kriegsman, and did not hold any meetings during 2013. The committee nominates new directors and periodically oversees corporate governance matters.

The charter of the nominations and governance committee provides that the committee will consider board candidates recommended for consideration by our stockholders, provided the stockholders provide information regarding candidates as required by the charter or reasonably requested by us within the timeframe proscribed in Rule 14a-8 of Regulation 14A under the Exchange Act, and other applicable rules and regulations. Recommendation materials are required to be sent to the nominations and governance committee c/o Catasys, Inc., 11601 Wilshire Boulevard, Suite 950, Los Angeles, California 90025. There are no specific minimum qualifications required to be met by a director nominee recommended for a position on the board of directors, nor are there any specific qualities or skills that are necessary for one or more of our board of directors to possess, other than as are necessary to meet any requirements under the rules and regulations applicable to us. The nominations and governance committee considers a potential candidate's experience, areas of expertise, and other factors relative to the overall composition of the board of directors.

The nominations and governance committee considers director candidates that are suggested by members of the board of directors, as well as management and stockholders. Although it has not previously utilized, the committee may also retain a third-party executive search firm to identify candidates. The process for identifying and evaluating nominees for director, including nominees recommended by stockholders, involves reviewing potentially eligible candidates, conducting background and reference checks, interviews with the candidate and others (as schedules permit), meeting to consider and approve the candidate and, as appropriate, preparing and presenting to the full board of directors an analysis with respect to particular recommended candidates. The nominations and governance committee endeavors to identify director nominees who have the highest personal and professional integrity, have demonstrated exceptional ability and judgment, and, together with other director nominees and members, are expected to serve the long term interest of our stockholders and contribute to our overall corporate goals.

Compensation committee

The compensation committee consists of two directors who are independent as defined by the NASDAQ rules. During 2014, the committee consisted of Mr. Kriegsman and Mr. Igelman, and did not hold any meetings during 2014. The compensation committee reviews and recommends to the board of directors for approval the compensation of our executive officers.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the total compensation paid during the last two fiscal years ended December 31, 2014 and 2013 to (1) our Chief Executive Officer, and (2) our two next most highly compensated executive officers who earned more than $100,000 during the fiscal year ended December 31, 2014 and were serving as executive officers as of such date.

Name and Principal Position	Year	Salary ($) (1)	Option Awards (2)	All Other Compen-sation ($) (3)	Total ($)
Terren S. Peizer,	2014	450,000	-	19,303	469,303
Chairman & Chief Executive Officer	2013	450,000	-	19,442	469,442
Richard A. Anderson,	2014	374,250	-	29,019	403,269
President and Chief Operating Officer	2013	370,287	-	30,815	401,102
Etzel, Susan	2014	164,538	-	-	164,538
Chief Financial Officer Officer	2013	150,000	-	-	150,000

(1) Mr. Peizer deferred part of his salary for the 2014 and 2013 years.
(2) No equity awards were granted during 2014 and 2013.
(3) Includes group life insurance premiums and medical benefits.

Narrative Disclosures to Summary Compensation Table

Executive employment agreements

Chief Executive Officer

We entered into a five-year employment agreement with our Chairman and Chief Executive Officer, Terren S. Peizer, effective as of September 29, 2003, which automatically renews after each five-year term. Mr. Peizer received an annual base salary of $450,000 in each of 2014 and 2013, of which, part of this was deferred, with annual bonuses targeted at 100% of his base salary based on goals and milestones established and reevaluated on an annual basis by mutual agreement between Mr. Peizer and the Board of Directors. Mr. Peizer did not receive any annual bonus during the years ended December 31, 2014 and 2013. His base salary and bonus target will be adjusted each year to not be less than the median compensation of similarly positioned CEO's of similarly situated companies. Mr. Peizer receives executive benefits including group medical and dental insurance, term life insurance equal to 150% of his salary, accidental death and long-term disability insurance, grossed up for taxes. There were no options granted to Mr. Peizer during 2014 or 2013. All unvested options vest immediately in the event of a change in control, termination without good cause or resignation with good reason. In the event that Mr. Peizer is terminated without good cause or resigns with good reason prior to the end of the term, he will receive a lump sum payment equal to the remainder of his base salary and targeted bonus for the year of termination, plus three years of additional salary, bonuses and benefits. If any of the provisions above result in an excise tax, we will make an additional "gross up" payment to eliminate the impact of the tax on Mr. Peizer.

President and Chief Operating Officer

We entered into a four-year employment agreement with our President and Chief Operating Officer, Richard A. Anderson, effective April 19, 2005, as amended on July 16, 2008. Mr. Anderson’s agreement renewed for an additional four year term in 2010. Mr. Anderson received an annual base salary of $374,250 in 2014 and $370,287 in 2013, with annual bonuses targeted at 50% of his base salary based on achieving certain milestones. Mr. Anderson did not receive any annual bonus during the years ended December 31, 2014 and 2013. Mr. Anderson’s compensation will be adjusted each year by an amount not less than the Consumer Price Index. Mr. Anderson received executive benefits including group medical and dental insurance, term life insurance, accidental death and long-term disability insurance. There were no equity awards granted to Mr. Anderson in 2014 or 2013. All unvested options will vest immediately in the event of a change in control, termination without cause or resignation with good reason. In the event of termination without good cause or resignation with good reason prior to the end of the term, upon execution of a mutual general release, Mr. Anderson will receive a lump sum payment equal to one year of salary and bonus, and will receive continued medical benefits for one year unless he becomes eligible for coverage under another employer's plan. If he is terminated without cause or resigns with good reason within twelve months following a change in control, upon execution of a general release he will receive a lump sum payment equal to eighteen months salary, 150% of the targeted bonus, and will receive continued medical benefits for eighteen months unless he becomes eligible for coverage under another employer's plan.

Chief Financial Officer

We entered into a two-year employment agreement with Ms. Etzel effective January 1, 2013. Beginning January 1, 2015, Ms. Etzel will be employed on an at-will basis. Ms. Etzel received an annual base salary of $164,538 in 2014 and $150,000 in 2013, and she may be eligible to an annual bonus, to be determined solely by the Company, contingent on achieving certain individual goals and milestones and the overall performance and profitability of the Company. Ms. Etzel did not receive any annual bonus during the years ended December 31, 2014 and 2013. In the event the Company terminates the employment with Good Cause or if Ms. Etzel resigns, the Company will pay Ms. Etzel her then applicable salary prorated through the date of termination, together with any benefits accrued through the date of termination and all of her unvested option will terminate. If the Company terminates the employment without Good Cause, Ms. Etzel will be entitled to her then applicable salary prorated through the date of termination, together with any benefits accrued through the date of termination, all of her unvested stock options will vest immediately and the Company will continue to pay Ms. Etzel her base salary for a period of three months after the termination date. In addition, Ms. Etzel will be entitled to COBRA continuation coverage for a period of three months from the termination date.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth all outstanding equity awards held by our named executive officers as of December 31, 2014.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexer-cisable	Option Exercise Price ($)	Option Expiration Date
Terren S. Peizer	1,150	-	123.20	02/07/18
	1,350	-	123.20	06/20/18
	2,398	-	193.60	10/27/19
	148,500	-	17.60	12/06/20
	153,398	-		
Richard A. Anderson	638	-	112.00	04/28/15
	63	-	112.00	07/27/16
	733	-	112.00	02/07/18
	862	-	112.00	06/20/18
	1,245	-	176.00	10/27/19
	148,500	-	16.00	12/06/20
	152,041	-		
Susan Etzel	1,625	-	8.00	05/24/21

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

Potential payments upon termination

The following summarizes the payments that the named executive officers would have received if their employment had terminated on December 31, 2014.

If Mr. Peizer's employment had terminated due to disability, he would have received insurance and other fringe benefits for a period of one year thereafter, with a value equal to $15,000. If Mr. Peizer had been terminated without good cause or resigned for good reason, he would have received a lump sum payment of $2,700,000, based upon: (i) three years of additional salary at $450,000 per year; (ii) three years of additional bonus of $450,000 per year; and (iii) three years of fringe benefits, with a value equal to $45,000.

If Mr. Anderson had been or is terminated without good cause or resigned for good reason, he would have received a lump sum payment of $590,000 based upon one year's salary plus the full targeted bonus of 50% of base salary. In addition, medical benefits would continue for up to one year, with a value equal to $29,000.

If Ms. Etzel had been or is terminated without good cause or resigned for good reason, she would have received a lump sum payment of $45,000 based upon 3 month’s salary plus medical benefits for three months, with a value equal to $3,000.

Potential payments upon change in control

Upon a change in control, the unvested stock options of each of our named executive officers would have vested, with the values set forth above.

If Mr. Peizer had been terminated without good cause or resigned for good reason within twelve months following a change in control, he would have received a lump sum payment of $2,757,000, as described above, plus a tax gross up of $702,000.

If Mr. Anderson had been terminated without good cause or resigned for good reason within twelve months following a change in control, he would have received a lump sum payment of $886,000, based upon one-and-a-half year's salary plus one-and-a-half the full targeted bonus of 50% of base salary. In addition, medical benefits would continue for up to one-and-a-half years, with a value equal to $44,000.

DIRECTOR COMPENSATION

During the fiscal year 2014, our non-employee directors did not earn nor receive cash compensation or compensation in the form of stock awards, option awards or any other form.

There were no stock options granted to non-employee directors outstanding at December 31, 2014. There were no stock options granted during 2014 and 2013.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides certain aggregate information with respect to all of the Company's equity compensation plans in effect as of December 31, 2014.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and right	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	**398,621**	**$ 20.04**	**1,369,142**
Equity compensation plans not approved by security holders	-	-	-
Total	**398,621**	**$ 20.04**	**1,369,142**

(1) This plan consisted of 398,621 outstanding options**.**

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

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of March 30, 2015 for (a) each stockholder known by us to own beneficially more than 5% of our common stock (b) our named executive officers, (c) each of our directors, and (d) all of our current directors and executive officers as a group. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. We deem shares of common stock that may be acquired by an individual or group within 60 days of March 30, 2015 pursuant to the exercise of options or warrants to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as indicated in footnotes to this table, we believe that the stockholders named in this table have sole voting and investment power with respect to all shares of common stock shown to be beneficially owned by them based on information provided to us by these stockholders. Percentage of ownership is based on 25,320,540 shares of common stock outstanding on March 30, 2015.

Name of beneficial owner (1)	Common stock beneficially owned (2)	Options & warrants exercisable (3)	Total common stock beneficially owned	Percent of class (3)
Directors and Named Executive Officers:				
Terren S. Peizer (4)	15,677,944	15,880,369	31,558,313	76.7%
Richard A. Anderson (5)	-	152,041	152,041	*
Susan Etzel (6)	-	1,625	1,625	*
Richard Berman (7)	-	104,167	104,167	*
Steven Kriegsman (8)	-	83,334	83,334	*
David Smith (9)	4,672,259	4,575,131	9,247,390	31.0%
Marvin Igelman (10)	-	83,334	83,334	*
Steve Gorlin (11)	150,000	83,334	233,334	*
* Less than 1%				
All directors and named executive officers as a group (8 persons)	20,500,203	20,963,335	41,463,538	89.7%

(1) Except as set forth below, the mailing address of all individuals listed is c/o Catasys, Inc., 11601 Wilshire Boulevard, Suite 950, Los Angeles, California 90025.

(2) The number of shares beneficially owned includes shares of common stock in which a person has sole or shared voting power and/or sole or shared investment power. Except as noted below, each person named reportedly has sole voting and investment powers with respect to the common stock beneficially owned by that person, subject to applicable community property and similar laws.

(3) On March 30, 2015, there were 25,320,540 shares of common stock outstanding. Common stock not outstanding but which underlies options and rights (including warrants) vested as of or vesting within 60 days after March 30, 2015, is deemed to be outstanding for the purpose of computing the percentage of the common stock beneficially owned by each named person (and the directors and executive officers as a group), but is not deemed to be outstanding for any other purpose. In February 2015, we granted to each of our non-employee directors as annual compensation for serving on our board an option to purchase 200,000 shares of our common stock. In addition, we granted to the Chairman of our Audit Committee an additional option to purchase 50,000 shares of our common stock. The options were granted under our 2010 Stock Incentive Plan, as amended. These options have a three-year vesting period with one-year vesting immediately and the remainder of the options vesting equally over the next 24 months, have an exercise price of $2.20, the closing bid price of our common stock on the OTCQB on the date of the grant, and they expire in February 2025. All unvested options will immediately vest in the event of termination without cause, are transferable upon death and will be exercisable for a period of ten years after the grantee ceases to be director.

(4) Consists of warrants to purchase 15,726,971 shares of common stock, and options to purchase 153,398 shares of common stock. 32,750, 15,588,402 and 56,792 shares are held of record by Reserva Capital LLC, Crede CG III Ltd. and Bonmore, LLC, respectively, where Mr. Peizer serves as Managing Director and may be deemed to beneficially own or control. Mr. Peizer disclaims beneficial ownership of any such securities.

(5) Includes options to purchase 152,041 shares of common stock, which are exercisable within the next 60 days.

(6) Includes options to purchase 1,625 shares of common stock, which are exercisable within the next 60 days.
(7) Incudes options to purchase 104,167 shares of common stock, which are exercisable within the next 60 days.
(8) Includes options to purchase 83,334 shares of common stock, which are exercisable within the next 60 days.
(9) Consists of 4,672,259 shares of common stock, options to purchase 83,334 shares of common stock, which are exercisable within the next 60 days, and warrants to purchase 4,491,797 shares of common stock held by Shamus, LLC, where Mr. Smith serves as Managing Director and may be deemed to beneficially own or control.
(10) Includes options to purchase 83,334 shares of common stock, which are exercisable within the next 60 days.
(11) Consists of 150,000 shares of common stock and options to purchase 83,334 shares of common stock, which are exercisable within the next 60 days.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Review and Approval of Transactions with Related Persons

Either the audit committee or the Board of Directors approves all related party transactions. The procedure for the review, approval or ratification for related party transactions involves discussing the transaction with management, discussing the transaction with the external auditors, reviewing financial statements and related disclosures and reviewing the details of major deals and transactions to ensure that they do not involve related transactions. Members of management have been informed and understand that they are to bring related party transactions to the audit committee or the Board of Directors for pre-approval. These policies and procedures are evidenced in the audit committee charter and our code of ethics.

Certain Transactions

In April 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, 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 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. The April Offering provides 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 securities purchase agreement (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").

In October 2013, we entered into securities purchase agreements with several investors, including Crede III and Shamus, 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 Offering”). 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. The October Offering provides 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.

In January 2014, we entered into securities purchase agreements with several investors, including Crede III, relating to the sale and issuance of an aggregate of 1,724,141 shares of common stock, and warrants (the “January Warrants”) to purchase an aggregate of 1,724,141 shares of Common Stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $1.0 million (the “January Offering”). The January Warrants expire in January 2019, 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 January Warrants, the exercise price of the January Warrants will be reduced to such lower price, subject to customary exceptions. The January Offering provides 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.

In May 2014, we entered into securities purchase agreements with several investors, including Crede III and Shamus, relating to the sale and issuance of an aggregate of 2,586,210 shares of common stock and warrants (the “May Warrants”) to purchase an aggregate of 2,586,210 shares of common stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $1.5 million (the “May Offering”). The May Warrants expire in May 2019, 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 May Warrants, the exercise price of the May Warrants will be reduced to such lower price, subject to customary exceptions. The May Offering 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 to the investors.

In September 2014, we entered into the securities purchase agreements with several investors, relating to the sale and issuance of an aggregate of 750,000 shares of common at an exercise price of $2.00 per share for aggregate gross proceeds of approximately $1.5 million.

In December 2014, we entered into the securities purchase agreements with several investors, including Crede III and Steve Gorlin, an affiliate of the Company, relating to the sale and issuance of an aggregate of 550,000 shares of common at an exercise price of $2.00 per share for aggregate gross proceeds of approximately $1.1 million.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional audit services rendered by Rose, Synder & Jacobs LLP for the audit of the Company's annual financial statements for the years ended December 31, 2014, and December 31, 2013, and fees billed for other services rendered by Rose, Synder & Jacobs LLP during those periods.

	2014	2013
Audit fees (1)	$ 77,000	$ 76,000
Audit-related fees	-	-
Tax fees:	-	-
All other fees:	-	-
Total	$ 77,000	$ 76,000

(1) Audit fees consisted of audit work performed in the preparation of financial statements, as well as work generally only the independent registered public accounting firm can reasonably be expected to provide, such as statutory audits.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Public Accountant

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of our independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm.

Prior to engagement of an independent registered public accounting firm for the next year's audit, management will submit an aggregate of services expected to be rendered during that year for each of four categories of services to the Audit Committee for approval.

1. ***Audit*** services include audit work performed in the preparation of financial statements, as well as work that generally only an independent registered public accounting firm can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards.

2. ***Audit-Related*** services are for assurance and related services that are traditionally performed by an independent registered public accounting firm, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. ***Tax*** services include all services performed by an independent registered public accounting firm's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. ***Other Fees*** are those associated with services not captured in the other categories. The Company generally does not request such services from our independent registered public accounting firm.

Prior to engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires our independent registered public accounting firm and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage our independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging our independent registered public accounting firm.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1),(2) **Financial Statements**

The Financial Statements and Financial Statement Schedules listed on page F-1 of this document are filed as part of this filing.

(a)(3) **Exhibits**

The following exhibits are filed as part of this report:

Exhibit No.	Description
3.1	Certificate of Incorporation of Catasys, Inc., filed with the Secretary of State of the State of Delaware on September 29, 2003, incorporated by reference to exhibit of the same number of Catasys Inc.'s Form 8-K filed with the Securities and Exchange Commission on September 30, 2003.
3.2	Certificate of Amendment to Certificate of Incorporation of Catasys, Inc., incorporated by reference to exhibit of the same number to Catasys, Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010.
3.3	Certificate of Amendment, as corrected by the Certificate of Correction, to Certificate of Incorporation of Catasys, Inc., incorporated by reference to exhibit of the same number to Catasys, Inc's Registration Statement on Form S-1/A filed with Securities and Exchange Commission on September 9, 2011.
3.4	Certificate of Amendment of the Certificate of Incorporation of Catasys, Inc., incorporated by reference to exhibit 3.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on August 10, 2012.
3.5	Certificate of Amendment of the Certificate of Incorporation of Catasys, Inc., incorporated by reference to exhibit 3.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on May 7, 2013.
3.6	By-Laws of Catasys, Inc., a Delaware corporation, incorporated by reference to exhibit of the same number of Catasys, Inc.'s Form 8-K filed with the Securities and Exchange Commission on September 30, 2003.
4.1	Specimen Common Stock Certificate, incorporated by reference to exhibit of the same number to Catasys Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005.
4.2	Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on April 13, 2012
4.3	Secured Convertible Promissory Note issued to David E. Smith, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 7, 2011.
4.4	Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2011.
4.5	Amended and Restated Secured Convertible Promissory Note issued to David E. Smith, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2011.
4.6	Amended and Restated Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on August 8, 2011.
4.7	Second Amended and Restated Secured Convertible Promissory Note issued to David E. Smith, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2011.
4.8	Second Amended and Restated Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2011.

4.9	Third Amended and Restated Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2011.
4.10	Third Amended and Restated Secured Convertible Promissory Note issued to David E. Smith, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2011.
4.11	Fourth Amended and Restated Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2011.
4.12	Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2012.
4.13	Secured Convertible Promissory Note issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2010.
4.14	Secured Convertible Promissory Note issued to Esousa Holdings, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2010.
4.15	Form of Warrant incorporated by reference to Exhibit 4.2 of Catasys, Inc.'s Registrations Statement on Form S-1/A filed with the Securities and Exchange Commission on May 17, 2010.
4.16	Warrant issued to David E. Smith, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 7, 2011.
4.17	Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2011.
4.18	Amended and Restated Warrant issued to David E. Smith, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2011.
4.19	Amended and Restated Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2011.
4.20	Second Amended and Restated Warrant issued to David E. Smith, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2011.
4.21	Second Amended and Restated Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2011.
4.22	Third Amended and Restated Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2011.
4.23	Third Amended and Restated Warrant issued to David E. Smith, incorporated by reference to exhibit 4.3 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2011.
4.24	Fourth Amended and Restated Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.4 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2011.
4.25	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s Form 8-K filed with the Securities and Exchange Commission on December 27, 2011.
4.26	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2012.
4.27	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on September 18, 2012.
4.28	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc's current report on Form 8-K filed with the Securities and Exchange Commission on April 20, 2012.
4.29	Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on April 13, 2012.
4.30	Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2012.
4.31	Warrant issued to Crede Capital Group, LLC, incorporated by reference to exhibit 4.3 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2010.

4.32	Warrant issued to Esousa Holdings, LLC, incorporated by reference to exhibit 4.4 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2010.
4.33	Warrant issued on November 16, 2010, incorporated by reference to exhibit of the same number of Catasys Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010.
4.34	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on April 15, 2013.
4.35	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on April 15, 2013.
4.36	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on February 3, 2015.
4.37	Form of Warrant incorporated by reference to Exhibit 4.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on May 30, 2014.
10.1†	Employment Agreement between Catasys, Inc. and Terren S. Peizer, dated September 29, 2003, incorporated by reference to exhibit of the same number to Catasys Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005.
10.2†	Employment Agreement between Catasys, Inc. and Richard A. Anderson, dated April 19, 2005, incorporated by reference to exhibit of the same number to Catasys Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005.
10.3†	Amendment to Employment Agreement of Richard A. Anderson, dated July 16, 2008, incorporated by reference to Exhibit 10.1 of Catasys Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2008.
10.4†*	Form of Stock Option Grant Notice.
10.5†	2010 Stock Incentive Plan incorporated by reference to exhibit 10.1 of Catasys, Inc's Form 8-K filed with the Securities and Exchange Commission on December 16, 2010.
10.6	Securities Purchase Agreement between Catasys, Inc. and accredited investors dated October 19, 2010, incorporated by reference to Exhibit 4.1, 4.2, 4.3, 4.4, 10.1, 10.2, and 10.3 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 19, 2010.
10.7	Securities Purchase Agreement between Catasys, Inc. and investors, dated June 29, 2010, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on June 30, 2010.
10.8	Placement Agent Agreement between Rodman & Renshaw, LLC and Catasys, Inc., dated July 22, 2011, incorporated by reference to exhibit 10.30 of Catasys, Inc.'s registrations statement on Form S-1/A filed with the Securities and Exchange Commission on July 22, 2011.
10.9	Securities Purchase Agreement between Crede Capital Partners, LLC and Catasys, Inc., incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2011.
10.10	Securities Purchase Agreement between David E. Smith and Catasys, Inc., incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 7, 2011.
10.11	Consent Agreement between Crede Capital Partners, LLC and David E. Smith, incorporated by reference to Exhibit 10.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 7, 2011.
10.12	Amended and Restated Consent Agreement between Crede Capital Partners, LLC and David E. Smith, incorporated by reference to Exhibit 10.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2011.
10.13	Second Amended and Restated Consent Agreement between Crede Capital Partners, LLC and David E. Smith, incorporated by reference to Exhibit 10.2 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on November 17, 2011.
10.14	Third Amended and Restated Consent Agreement between Crede Capital Partners, LLC and David E. Smith, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 14, 2011.
10.15	Securities Purchase Agreement between Catasys, Inc. and accredited investors dated December 20, 2011, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 10-K filed with the Securities and Exchange Commission on December 27, 2011.
10.16	Securities Purchase Agreement between Catasys, Inc. and accredited investors dated April 17, 2012, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 10-K filed with the Securities and Exchange Commission on April 20, 2012.

10.17	Securities Purchase Agreement between Catasys, Inc. and accredited investors dated September 13, 2012, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 10-K filed with the Securities and Exchange Commission on September 18, 2012.
10.18	Securities Purchase Agreement between Catasys, Inc. and accredited investors dated December 4, 2012, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 10-K filed with the Securities and Exchange Commission on December 6, 2012.
10.19†	Employment Agreement between Catasys, Inc. and Susan Etzel, dated March 27, 2013, incorporated by reference to exhibit 10.41 of Catasys Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012.
10.20	Securities Purchase Agreement between Catasys, Inc. and accredited investors dated April 10, 2013, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2013.
10.21	Securities Purchase Agreement between Catasys, Inc. and accredited investors incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2013.
10.22	Securities Purchase Agreement between Catasys, Inc. and accredited investors incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on February 3, 2014.
10.23	Securities Purchase Agreement between Catasys, Inc. and accredited investors incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on May 30, 2014.
10.24	Securities Purchase Agreement between Catasys, Inc. and accredited investors incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on September 30, 2014.
10.25	Securities Purchase Agreement between Catasys, Inc. and accredited investors incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s current report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2014.
10.26	Office Lease between Catasys, Inc. and Trizec Wilshire Center, LLC dated November 6, 2013, incorporated by reference to Exhibit 10.1 of Catasys, Inc.'s quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2013.
10.27*	First Amendment to the Office Lease between Catasys, Inc. and Trizec Wilshire Center, LLC dated March 6, 2015.
14.1	Code of Conduct and Ethics, incorporated by reference to exhibit of the same number of Catasys Inc.'s annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2003.
21.1*	Subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm – Rose, Snyder & Jacobs LLP.
31.1*	Certification by the Chief Executive Officer, pursuant to Rule 13-a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by the Chief Financial Officer, pursuant to Rule 13-a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification by the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification by the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished herewith.
† Management contract or compensatory plan or arrangement.

SIGNATURES

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

CATASYS, INC.

Date: March 31, 2015

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ TERREN S. PEIZER Terren S. Peizer	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 31, 2015
/s/ SUSAN ETZEL Susan Etzel	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2015
/s/ RICHARD A. ANDERSON Richard A. Anderson	President, Chief Operating Officer and Director	March 31, 2015
/s/ RICHARD BERMAN Richard Berman	Director	March 31, 2015
/s/ STEVEN KRIEGSMAN Steven Kriegsman	Director	March 31, 2015
/s/ DAVID SMITH David Smith	Director	March 31, 2015
/s/ MARVIN IGELMAN Marvin Igelman	Director	March 31, 2015
/s/ STEVE GORLIN Steve Gorlin	Director	March 31, 2015

CATASYS, INC. AND SUBSIDIARIES
Index to Consolidated Financial Statements and Financial Statement Schedules

Financial Statements

Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not required, or the information is shown in the Financial Statements or Notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Catasys, Inc.

We have audited the accompanying consolidated balance sheets of Catasys, Inc. and Subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial positions of Catasys, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has continued to incur significant operating losses and negative cash flows from operations during the year ended December 31, 2014. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Rose, Snyder & Jacobs LLP

Encino, California

March 30, 2015

CATASYS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except for number of shares)	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 708	$ 1,136
Receivables, net of allowance for doubtful accounts of $0 and $0, respectively	189	173
Receivables from related party	300	115
Prepaids and other current assets	313	275
Total current assets	1,510	1,699
Long-term assets		
Property and equipment, net of accumulated depreciation of $2,002 and $2,001, respectively	354	366
Intangible assets, net of accumulated amortization of $418 and $401, respectively	101	118
Deposits and other assets	387	440
Total Assets	$ 2,352	$ 2,623
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	$ 341	$ 1,148
Accrued compensation and benefits	1,392	1,181
Deferred revenue	354	534
Other accrued liabilities	614	1,270
Warrant liabilities	259	39
Total current liabilities	2,960	4,172
Long-term liabilities		
Deferred rent and other long-term liabilities	267	160
Capital leases	23	26
Warrant liabilities	40,326	16,308
Total Liabilities	43,576	20,666
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; 25,244,485 and 18,835,571 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	3	2
Additional paid-in-capital	213,333	209,169
Accumulated deficit	(254,560)	(227,214)
Total Stockholders' deficit	(41,224)	(18,043)
Total Liabilities and Stockholders' Deficit	$ 2,352	$ 2,623

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CATASYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)	**Twelve Months Ended December 31, 2014**	**2013**
Revenues		
Healthcare services revenues	$ 2,030	$ 754
Operating expenses		
Cost of healthcare services	1,301	650
General and administrative	6,302	5,426
Depreciation and amortization	113	23
Total operating expenses	7,716	6,099
Loss from operations	(5,686)	(5,345)
Interest and other income	1,194	107
Interest expense	(2,778)	(3,069)
Change in fair value of warrant liability	(19,854)	5,392
Loss from continuing operations before provision for income taxes	(27,124)	(2,915)
Provision for income taxes	9	9
Loss from continuing operations	$ (27,133)	$ (2,924)
Loss from discontinued operations, net of income taxes	$ (213)	$ (1,755)
Loss	$ (27,346)	$ (4,679)
Basic and diluted net loss from continuing operations per share:	$ (1.21)	$ (0.20)
Basic weighted number of shares outstanding	22,353	14,604
Basic and diluted net loss from discontinued operations per share:	$ (0.01)	$ (0.12)
Basic weighted number of shares outstanding	22,353	14,604

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CATASYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Other Comprehensive Income	Accumulated Deficit	Total
Balance at December 31, 2012*	12,022,826	$ 1	$ 208,776	$ -	$ (222,535)	$ (13,758)
Exercise of Warrants	69,886	1	180	-	-	181
Common stock issued in private placement,	6,742,859	-	-	-	-	-
net of expenses	-	-	-	-	-	-
Share-based Compensation Expense	-	-	213	-	-	213
Net loss	-	-	-	-	(4,679)	(4,679)
Balance at December 31, 2013*	18,835,571	$ 2	$ 209,169	$ -	$ (227,214)	$ (18,043)
Exercise of Warrants	443,563	-	963	-	-	963
Common stock issued for outside services	355,000	-	550			550
Common stock issued in private placement,	-	-	-	-	-	-
net of expenses	5,610,351	1	2,600	-	-	2,601
Share-based Compensation Expense	-	-	51	-	-	51
Net loss	-	-	-	-	(27,346)	(27,346)
Balance at December 31, 2014	25,244,485	$ 3	$ 213,333	$ -	$ (254,560)	$ (41,224)

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

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CATASYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Twelve Months Ended December 31, 2014	2013
Operating activities:		
Net loss	$ (27,346)	$ (4,679)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	$ 213	$ 1,755
Depreciation and amortization	113	170
Issuance costs included in interest expense	2,771	3,066
Write-off of accrued liabilities	(1,194)	-
Deferred rent	70	(22)
Share-based compensation expense	51	213
Impairment losses	-	795
Transactions costs	400	-
Common stock issued for investor relations services	75	-
Fair value adjustment on warrant liability	19,854	(5,392)
Changes in current assets and liabilities:		
Receivables	(16)	(242)
Prepaids and other current assets	37	(19)
Deferred revenue	(180)	256
Accounts payable and other accrued liabilities	94	(80)
Net cash used by operating activities of continuing operations	$ (5,058)	$ (4,179)
Net cash used by operating activities of discontinued operations	$ (215)	$ (1,756)
Net cash used by operating activities	$ (5,273)	$ (5,935)
Investing activities:		
Purchases of property and equipment	$ (65)	$ -
Deposits and other assets	53	(265)
Net cash used by investing activities	$ (12)	$ (265)
Financing activities:		
Proceeds from the issuance of common stock and warrants	$ 4,800	$ 4,174
Proceeds from the exercise of warrants	77	23
Capital lease obligations	(20)	(14)
Net cash provided by financing activities	$ 4,857	$ 4,183
Net increase (decrease) in cash and cash equivalents	$ (428)	$ (2,017)
Cash and cash equivalents at beginning of period	1,136	3,153
Cash and cash equivalents at end of period	$ 708	$ 1,136
Supplemental disclosure of cash paid		
Income taxes	$ 14	$ 40
Supplemental disclosure of non-cash activity		
Common stock issued for exercise of warrants	$ 963	$ 156
Common stock issued for investor relations services	$ 150	$ -
Property and equipment acquired through capital leases and other financing	$ 24	$ 33

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CATASYS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Description of Business

We provide specialized healthcare management services to health plans and other third party payors through our On*Trak* program. Our On*Trak* program is designed to improve member health and at the same time lower costs to the insurer for underserved populations where behavioral health conditions are exacerbating co-existing medical conditions. The program utilizes member engagement and patient centric treatment that integrates evidence based medical and psychosocial interventions along with care coaching in a 52-week outpatient program. Our initial focus has been members with substance use disorders, but we have plans to expand into other behavioral health conditions, including anxiety and depression.

Basis of Consolidation and Presentation and Going Concern

Our financial statements have been prepared on the basis that we will continue as a going concern. At December 31, 2014, cash and cash equivalents was $708,000 and we had a working capital deficit of approximately $1.5 million. We have incurred significant operating losses and negative cash flows from operations since our inception. During the year ended December 31, 2014, our cash used in operating activities from continuing operations was $5.1 million. We anticipate continuing 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 December 31, 2014, these conditions raised substantial doubt as to our ability to continue as a going concern. We expect our current cash resources to cover expenses into April 2015, however delays in cash collections, revenue, or unforeseen expenditures, could negatively impact our estimate. We are in need of additional capital, however, there is no assurance that additional capital can be timely raised in an amount which is sufficient for us or on terms favorable to us and our stockholders, if at all. If we do not obtain additional capital, there is a significant doubt as to whether we can continue to operate as a going concern and we will need to curtail or cease operations or seek bankruptcy relief. If we discontinue operations, we may not have sufficient funds to pay any amounts to stockholders.

Our ability to fund our ongoing operations and continue as a going concern is dependent on signing and generating fees from existing and new contracts for our Catasys managed care programs and the success of management's plans to increase revenue and continue to control expenses. We currently operate our On*Trak* for substance dependence program in Florida, Kansas, Kentucky, Louisiana, Massachusetts, New Jersey, Oklahoma, West Virginia and Wisconsin. In the fourth quarter of 2014 we commenced enrollment of our On*Trak* program in Florida and New Jersey. The launch of the Florida program represented an expansion of an existing customer relationship. In the first quarter of 2015 we expanded our Wisconsin program with a national health plan to include their Medicare Advantage members. In addition, we signed an agreement with a new customer in Illinois, which is anticipated to commence enrollment in the second quarter of 2015, and an existing customer in Kansas to expand to our On*Trak* for anxiety program. The agreement to include On*Trak* for anxiety represents our first agreement for this product. We have generated fees from the launched programs and expect to increase enrollment and fees throughout 2015. However, there can be no assurance that we will generate such fees or that new programs will launch as we expect.

We have discontinued our license and management fees segment. The operations were shut down effective April 1, 2014 and all of the assets were absorbed by the Company.

All inter-company transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosed in the accompanying notes. Significant areas requiring the use of management estimates include expense accruals, accounts receivable allowances, accrued claims payable, the useful life of depreciable and amortizable assets, the evaluation of asset impairment, the valuation of warrant liabilities, and shared-based compensation. Actual results could differ from those estimates.

Revenue Recognition

Our Catasys contracts are generally designed to provide cash fees 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 performance guarantees we recognize the case rate ratably over twelve months.

Cost of 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-service 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.

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 December 31, 2014, we had an aggregate of 398,621 vested and unvested shares outstanding and 1,369,142 shares available for future awards.

Total share-based compensation expense on a consolidated basis was $51,000 and $213,000 for the years ended December 31, 2014 and 2013, respectively.

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 consolidated statements of operations.

There were no new stock options granted for the years ended December 31, 2014 or 2013, respectively.

Stock Options and Warrants – Non-employees

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

From time to time, we have retained terminated employees as part-time consultants upon their resignation from the company. Because the employees continue to provide services to us, their options continue to vest in accordance with the original terms. Due to the change in classification of the option awards, the options are considered modified at the date of termination. The modifications are treated as exchanges of the original awards in return for the issuance of new awards. At the date of termination, the unvested options are no longer accounted for as employee awards under FASB's accounting rules for share-based expense but are instead 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. We recorded no expense for the years ended December 31, 2014 and 2013, respectively, associated with modified liability awards.

Income Taxes

We account for income taxes using the liability method in accordance with Accounting Standards Committee ("ASC") 740 "Income Taxes". To date, no current income tax liability has been recorded due to our accumulated net losses. Deferred tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and the amounts that are reported in the tax returns. Deferred tax assets and liabilities are recorded on a net basis; however, our net deferred tax assets have been fully reserved by a valuation allowance due to the uncertainty of our ability to realize future taxable income and to recover our net deferred tax assets.

Basic and Diluted Loss per Share

Basic loss per share is computed by dividing the net loss to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing the net 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 approximately 21,860,191 and 18,342,335 of incremental common shares as of December 31, 2014 and 2013, respectively, issuable upon the exercise of stock options and warrants, have been excluded from the diluted loss per share calculation because their effect is anti-dilutive.

Cash and Cash Equivalents

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. At December 31, 2014, cash and cash equivalents exceeding federally insured limits totaled $551,000.

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 tables summarize fair value measurements by level at December 31, 2014 and 2013, respectively, for assets and liabilities measured at fair value on a recurring basis:

	Balance at December 31, 2013			
(Amounts in thousands)	Level I	Level II	Level III	Total
Certificates of deposit	175	-	-	175
Total assets	175	-	-	175
Warrant liabilities	-	-	16,347	16,347
Total liabilities	-	-	16,347	16,347

	Balance at December 31, 2014			
(Amounts in thousands)	Level I	Level II	Level III	Total
Certificates of deposit	122	-	-	122
Total assets	122	-	-	122
Warrant liabilities	-	-	40,585	40,585
Total liabilities	-	-	40,585	40,585

We measure warrant liabilities issued from our debt and equity financings on a recurring basis. 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. Significant increases (decreases) in any of these inputs could result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the expected term is accompanied by a change in the assumption used for the risk free rate and the expected stock. See *Warrant Liabilities* below.

The following table summarizes our fair value measurements using significant Level III inputs, and changes therein, for the years ended December 31, 2014 and 2013:

(Dollars in thousands)	Level III Warrant Liabilities
Balance as of December 31, 2012	$ 14,658
Reclassification to equity	(156)
Change in fair value	(5,392)
Issuance of Warrants	7,237
Balance as of December 31, 2013	$ 16,347
Issuance (exercise) of warrants, net	4,384
Change in fair value	19,897
Expiration of warrants	(43)
Balance as of December 31, 2014	$ 40,585

Intangible Assets

Intellectual Property

Intellectual property consists primarily of the costs associated with acquiring certain technology, patents, patents pending, know-how and related intangible assets with respect to programs for treatment of dependence to alcohol, cocaine, methamphetamines other addictive stimulants, and anxiety. These long-term assets are stated at cost and are being amortized on a straight-line basis over the life of the respective patents, or patent applications, which is approximately six years at December 31, 2014.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. 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. Construction in progress is not depreciated until the related asset is placed into service.

Impairment of Long-Lived Assets

Long-lived assets such as property, equipment and intangible assets subject to amortization are reviewed 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 their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and their carrying value.

We performed an impairment analysis on intellectual property for the years ended December 31, 2014 and 2013. There was no impairment of intangibles for the year ended December 31, 2014. We determined that the carrying value for certain intangibles was not recoverable and exceeded the fair value at December 31, 2013. We recorded an impairment charge of $795,000 for these assets at December 31, 2013 We determined that the estimated lives of the remaining intellectual property properly reflected the current remaining economic lives of the assets.

Capital Leases

Assets held under capital leases include computer equipment, and are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. All lease agreements meet at least one of the four requirements of a capital lease in accordance with ASC 840 of the codification.

Warrant Liabilities

In May 2014, we entered into the securities purchase agreements (the “May 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, LLC (“Shamus”) an affiliate of the Company, relating to the sale and issuance of an aggregate of 2,586,210 shares of common stock and warrants (the “May Warrants”) to purchase an aggregate of 2,586,210 shares of common stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $1.5 million (the “May Offering”). The May 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 securities purchase agreement (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 May Warrants expire in May 2019, 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 May Warrants, the exercise price of the May 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 May 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.

In January 2014, we entered into the securities purchase agreements (the “January Agreements”) with several investors, including Crede III, relating to the sale and issuance of an aggregate of 1,724,141 shares of common stock and warrants (the “January Warrants”) to purchase an aggregate of 1,724,141 shares of common stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $1.0 million (the “January Offering”). The January 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 to the investors.

The January Warrants expire in January 2019, 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 January Warrants, the exercise price of the January 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 January 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.

In October 2013, we entered into the securities and purchase agreements with several investors including Crede III and Shamus, 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 Offering”). The October Offering provides 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.

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 securities 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. In the event that Adjustment Shares are issued, the number of shares that may be purchased under the October 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.

In April 2013, we entered into the securities purchase agreements with several investors, Crede III and Shamus, LLC, 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 Offering provides 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. In October 2013, we completed a private placement at $0.58 per share and the warrant shares associated with the April Offering were reduced to $0.58 per share.

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, October 2013, January 2014, and May 2014. 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 years ended December 31, 2014 and 2013, we recognized a loss of $19.9 million and a gain of $5.4 million, respectively, related to the revaluation of our warrant liabilities.

Concentration of Credit Risk

Financial instruments, which potentially subject us to a concentration of risk, include cash and accounts receivable. All of our customers are based in the United States at this time and we are not subject to exchange risk for accounts receivable.

The Company maintains its cash in domestic financial institutions subject to insurance coverage issued by the Federal Deposit Insurance Corporation (FDIC). Under FDIC rules, the company is entitled to aggregate coverage as defined by the Federal regulation per account type per separate legal entity per financial institution. The Company has incurred no losses as a result of any credit risk exposures.

For the year ended December 31, 2014, three customers accounted for approximately 87% of revenues and four customers accounted for approximately 98% of accounts receivable.

Recently Issued or Newly Adopted Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update ("ASU") 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and requires either a retrospective or a modified restrospective approach to adoptions. Early adoption is permitted. We are currently evaluating the potential impact of this standard on our consolidated financial statements, as well as the available transition methods.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* ("ASU 2014-15"). ASU 2014-15 changes to the disclosure of uncertainties about an entity's ability to continue as a going concern. Under U.S. GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Even if an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. Because there is no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related note disclosures, there is diversity in practice whether, when, and how an entity discloses the relevant conditions and events in its financial statements. As a result, these changes require an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that financial statements are issued. Substantial doubt is defined as an indication that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that financial statements are issued. If management has concluded that substantial doubt exists, then the following disclosures should be made in the financial statements: (i) principal conditions or events that raised the substantial doubt, (ii) management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations, (iii) management's plans that alleviated the initial substantial doubt or, if substantial doubt was not alleviated, management's plans that are intended to at least mitigate the conditions or events that raise substantial doubt, and (iv) if the latter in (iii) is disclosed, an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern. ASU 2014-15 is effective for periods beginning after December 15, 2016. The adoption of ASU 2013-15 will not have a material effect on our consolidated financial position or results of operations.

Note 2. Discontinued Operations

We have discontinued our license and management fees segment. The operations were shut down effective April 1, 2014 and all of the assets were absorbed by the Company. The revenues and expenses of discontinued operations for the twelve months ended December 31, 2014 and 2013 are as follows:

(in thousands)	Twelve months ended December 31, 2014	2013
Revenues	$ 25	$ 112
Expenses		
Cost of license and management services	$ 55	$ 235
General and administrative expenses		
Salaries and benefits	96	465
Other expenses	83	225
Impairment losses	-	795
Depreciation and amortization	4	147
Total expenses	$ 238	$ 1,867
Loss from discontinued operations	$ (213)	$ (1,755)

The carrying amount of the assets and liabilities of discontinued operations, were as follows:

(in thousands)	December 31 2014	December 31, 2013
Cash and cash equivalents	$ -	$ 24
Receivables, net	-	24
Total assets	$ -	$ 48
Accounts payable	-	25
Intercompany Payable	-	13,119
Total liabilities	$ -	$ 13,144
Net assets (liabilities) of discontinued operations	$ -	$ (13,096)

Note 3. Accounts Receivable

Accounts receivables consisted of the following as of December 31, 2014 and 2013:

	December 31,	
(in thousands)	2014	2013
Healthcare fees	$ 184	$ 146
Patient fees receivable	-	24
Other	5	3
Total receivables	$ 189	$ 173
Less allowance for doubtful accounts	-	-
Total receivables, net	$ 189	$ 173

We use the specific identification method for recording the provision for doubtful accounts, which was $0 and $0 as of December 31, 2014 and 2013, respectively.

Note 4. Receivable – Related Party

In December 2014, we entered into securities purchase agreement with several investors including Steve Gorlin, an affiliate of the Company, related to the sale and issuance of common stock. Mr. Gorlin received approximately 150,000 shares of common stock at a price of $2.00 per share, for gross proceeds of approximately $300,000. Such proceeds were received subsequent to year-end.

In December 2010, we entered into a three-year sublease agreement with Xoftek, Inc., an affiliate of our Chairman and Chief Executive Officer, 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 December 31, 2014 and December 31, 2013 was $0 and $115,000, respectively. This is net of an offset against this receivable of $0 and $186,000 payable to our Chairman and Chief Executive Officer at December 31, 2014 and December 31, 2013, respectively. We have offset approximately $382,000 in payables due to our Chairman and Chief Executive Officer during the year ended December 31, 2014.

Note 5. Property and Equipment

Property and equipment consisted of the following as of December 31, 2014 and 2013:

(in thousands)	2014	2013
Furniture and equipment	$ 2,038	$ 2,054
Leasehold improvements	318	313
Total property and equipment	2,356	2,367
Less accumulated depreciation and amortization	(2,002)	(2,001)
Total property and equipment, net	$ 354	$ 366

Depreciation expense was $96,000 and $35,000 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2013, we wrote off $2.7 million of the fully depreciated balance of leasehold improvements, furniture, and equipment related to the premises we vacated in 2013.

Note 6. Intangible Assets

Intellectual property consists primarily of the costs associated with acquiring certain technology, patents, patents pending, know-how and related intangible assets with respect to our program for treatment of anxiety. Intellectual property is being amortized on a straight-line basis from the date costs are incurred over the remaining life of the respective patents or patent applications, which is approximately six years at December 31, 2014. As of December 31, 2014 and 2013, intangible assets were as follows:

	December 31,	
(in thousands)	**2014**	**2013**
Intellectual property	$ 519	$ 519
Less accumulated amortization	(418)	(401)
Total intangibles, net	$ 101	$ 118

Amortization expense for all intangible assets amounted to $17,000 and $135,000 for the years ended December 31, 2014 and 2013, respectively. Estimated amortization expense for intellectual property for the next five years ending December 31, is as follows:

(In thousands) **Year**	**Amount**
2015	$ 16
2016	$ 16
2017	$ 16
2018	$ 16
2019	$ 16

We recorded impairment losses of $0 and $795,000 for the years ended December 31, 2014 and 2013, respectively.

Note 7. Capital Lease Obligations

We lease certain computer equipment under agreements entered into during 2014 that are classified as capital leases. The computer equipment under capital leases is included in furniture and equipment on our condensed consolidated balance sheets and was $88,000 and $64,000 at December 31, 2014 and 2013, respectively. Accumulated depreciation of the leased equipment at December 31, 2014 and 2013 was approximately $44,000 and $18,000, respectively.

The future minimum lease payments required under the capital leases and the present values of the net minimum lease payments, as of December 31, 2014, are as follows:

(in thousands)	**Amount**
Year ending December 31,	
2015	$ 35
2016	22
2017	7
Total minimum lease payments	64
Less amounts representing interest	(12)
Capital lease obligations, net of interest	52
Less current maturities of capital lease obligations	(29)
Long-term capital lease obligations	$ 23

Note 8. Income Taxes

As of December 31, 2014, the Company had net federal operating loss carry forwards and state operating loss carry forwards of approximately $191 million and $152 million, respectively. The net federal operating loss carry forwards begin to expire in 2024, and net state operating loss carry forwards begin to expire in 2014. The majority of the foreign net operating loss carry forwards expire over the next seven years.

The primary components of temporary differences which give rise to our net deferred tax assets are as follows:

	2014	2013
(in thousands)		
Federal, state and foreign net operating losses	$ 72,141	$ 68,199
Stock based compensation	7,778	8,228
Accrued liabilities	503	430
Other temporary differences	6,510	(2,595)
Valuation allowance	(86,932)	(74,262)
	$ -	$ -

The Company has provided a valuation allowance in full on its net deferred tax assets in accordance with ASC 740 Income Taxes. Because of the Company's continued losses, management assessed the realizability of its net deferred tax assets as being less than the more-likely-than-not criteria set forth by ASC 740. Furthermore, certain portions of the Company's net operating loss carryforwards were acquired, and therefore subject to further limitation set forth under the federal tax code, which could further limit the Company's ability to realize its deferred tax assets.

A reconciliation between the statutory federal income tax rate and the effective income tax rate for the years ended December 31, is as follows

	2014	2013
Federal statutory rate	-34.0%	-34.0%
State taxes, net of federal benefit	2.7%	-37.1%
Non-deductible goodwill	0.0%	0.0%
ISO / ESPP	0.0%	1.3%
Other	0.0%	0.4%
Change in valuation allowance	31.3%	69.6%
Tax provision	0.0%	0.2%

Current accounting rules require that companies recognize in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Tax years that remain subject to examinations by tax authorities are 2009 through 2013. The federal and material foreign jurisdictions statutes of limitations began to expire in 2009. There are no current income tax audits in any jurisdictions for open tax years and, as of December 31, 2014, there have been no material changes to our tax positions.

The Company has adopted guidance issued by the FASB that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of more likely than not and a measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In making this assessment, a company must determine whether it is more likely than not that a tax position will be sustained upon examination, based solely on the technical merits of the position and must assume that the tax position will be examined by taxing authorities. Our policy is to include interest and penalties related to unrecognized tax benefits in income tax expense. There were no interest and penalties for the years ended December 31, 2014 and 2013, respectively. The Company files income tax returns with the Internal Revenue Service (“IRS”) and the state of California. For jurisdictions in which tax filings are prepared, the Company is no longer subject to income tax examinations by state tax authorities for tax years through 2008, and by the IRS for tax years through 2009. The Company’s net operating loss carryforwards are subject to IRS examination until they are fully utilized and such tax years are closed.

Note 9. Equity Financings

In December 2014, we entered into the securities purchase agreements (the “December Agreements”) with several investors, including Crede III and Steve Gorlin, an affiliate of the Company, relating to the sale and issuance of an aggregate of 550,000 shares of common for aggregate gross proceeds of approximately $1.1 million.

In September 2014, we entered into securities purchase agreements (the "September Agreements") with several investors, relating to the sale and issuance of an aggregate of 750,000 shares of common stock for aggregate gross proceeds of approximately $1.5 million (the "September Offering").

In May 2014, we entered into the May Agreements with several investors, including Crede III and Shamus, relating to the sale and issuance of an aggregate of 2,586,210 shares of common stock and warrants to purchase an aggregate of 2,586,210 shares of common stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $1.5 million. The May 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 to the investors.

In January 2014, we entered into the January Agreements with several investors, including Crede III, relating to the sale and issuance of an aggregate of 1,724,141 shares of common stock and warrants to purchase an aggregate of 1,724,141 shares of common stock at an exercise price of $0.58 per share for aggregate gross proceeds of approximately $1.0 million. The January 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 to the investors.

In October 2013, we entered into the October Agreements with several investors, including Crede III and Shamus, 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 foregoing issuances triggered anti-dilution provisions in certain of the Company's outstanding warrants. As a result, the exercise price of these warrants decreased to $0.58 per share, however, the number of shares issuable under these warrants remained unchanged. The October 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 to the investors.

In April 2013, we entered into the April Agreements with several investors, including Crede III and Shamus, 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 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 to the investors. We effectuated a reverse split on May 6, 2013, and no Adjustment Shares were issued.

Note 10. Share-based Compensation

The Plan provides for the issuance of up to 1,825,000 shares of our common stock. Incentive stock options, under Section 422A of the Internal Revenue Code, non-qualified options, stock appreciation rights, limited stock appreciation rights and restricted stock grants are authorized under the Plan. We grant all such share-based compensation awards at no less than the fair market value of our stock on the date of grant, and have granted stock and 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; however, 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 on a straight-line basis. At December 31, 2014, we had 398,621 vested and unvested stock options outstanding and 1,369,142 shares reserved for future awards. Total share-based compensation expense amounted to $51,000 and $214,000 for the years ended December 31, 2014 and 2013, respectively.

Stock Options – Employees and Directors

There were no stock options granted to employees and directors during 2014 or 2013.

Stock option activity for employee and director grants is summarized as follows:

	Shares	Weighted Avg. Exercise Price
Balance, December 31, 2012	486,000	$ 47.20
2013		
Granted	-	-
Cancelled/Expired	(25,000)	151.70
Balance, December 31, 2013	461,000	$ 19.69
2014		
Granted	-	-
Cancelled/Expired	(83,000)	20.21
Balance, December 31, 2014	378,000	$ 19.59

The weighted average remaining contractual life and weighted average exercise price of options outstanding as of December 31, 2014 were as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Life (yrs)	Weighted Average Price	Shares	Weighted Average Price
$ 0.00 to $20.00	367,000	6.04	$ 15.60	366,000	$ 15.63
$ 20.01 to $1,000.00	11,000	3.78	154.12	11,000	154.12
	378,000	5.97	$ 19.59	377,000	$ 19.67

At December 31, 2014 and 2013, the number of options exercisable was 376,825 and 451,639, respectively, at weighted-average exercise prices of $19.67 and $20.00, respectively.

Share-based compensation expense relating to stock options granted to employees and directors was $43,000 and $189,000 for the years ended December 31, 2014 and 2013, respectively.

As of December 31, 2014, there was $1,000 of unrecognized compensation costs related to non-vested share-based compensation arrangements granted to employees and directors under the Plans. These costs are expected to be recognized over a weighted-average period of 0.87 years.

Stock Options and Warrants – Non-employees

In addition to stock options granted under the Plan, we have also granted options and warrants to purchase our common stock to certain non-employees that have been approved by our Board of Directors. There were no options and warrants granted during 2014 and 2013, respectively.

Stock option and warrant activity for non-employee grants for services is summarized as follows:

	Shares	Weighted avg. exercise price
Balance, December 31, 2012	22,000	$ 99.80
2013		
Granted	-	-
Cancelled	(1,000)	893.69
Balance, December 31, 2013	21,000	$ 28.40
2014		
Granted	-	-
Cancelled	-	-
Balance, December 31, 2014	21,000	$ 28.40

Warrants granted to non-employees outstanding at December 31, 2014 are summarized as follows:

Description	Shares	Weighted Average Exercise Price
Warrants issued in connection with equity offering	20,908,726	$ 0.62
Warrants issued in connection with debt agreement	450,000	0.58
Warrants issued for services	102,844	3.18
	21,461,570	$ 0.63

No warrants were granted to non-employees for services in 2014 or 2013.

Share-based compensation expense relating to stock options and warrants granted to non-employees amounted to $8,000 and $24,000 for the years ended December 31, 2014 and 2013, respectively.

Common Stock

During 2014 and 2013, we issued 355,000 and 0 shares of common stock, respectively, for consulting services valued at $550,000 and $0, respectively. Generally, The costs associated with shares issued for services are being amortized to the related expense on a straight-line basis over the related service periods.

Employee Stock Purchase Plan

Our qualified employee stock purchase plan (ESPP), approved by our Board of Directors and shareholders and adopted in June 2006, provides that eligible employees (employed at least 90 days) have the option to purchase shares of our common stock at a price equal to 85% of the lesser of the fair market value as of the first day or the last day of each offering period. Purchase options are granted semi-annually and are limited to the number of whole shares that can be purchased by an amount equal to up to 10% of a participant's annual base salary. As of December 31, 2014, there were no shares of our common stock issued pursuant to the ESPP. There was no share-based compensation expense relating to the ESPP for the years ended December 31, 2014 and 2013, respectively.

Note 11. Commitments and Contingencies

Operating Lease Commitments

We incurred rent expense of approximately $285,000 and $294,000 for the years ended December 31, 2014 and 2013, respectively.

Our principal executive and administrative offices are located in Los Angeles, California and consist of leased office space totaling approximately 9,076 square feet. The initial term of the lease expires in April 2019. Our base rent is currently approximately $29,000 per month, subject to annual adjustments.

Rent expense is calculated using the straight-line method based on the total minimum lease payments over the initial term of the lease. Landlord tenant improvement allowances and rent expense exceeding actual rent payments are accounted for as deferred rent liability in the balance sheet and amortized on a straight-line basis over the initial term of the respective leases.

Future minimum payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more, consist of the following at December 31, 2014:

(In thousands)

Year	Amount
2015	$ 339
2016	$ 365
2017	$ 376
2018	$ 387
2019	$ 99

Clinical Research Commitments

None.

Legal Proceedings

None.

Note 12. Other Income/Write-off of Liabilities

During the year ended December 31, 2014, the statute on a research contract, initially entered into in 2005 and amended and breached in 2010 expired in accordance with Section 337 of the California Code of Civil Procedures. Accordingly, we wrote off all balances included in accounts payable and accrued liabilities on our books relating to this contract. The amount recorded to Other Income was $1.2 million for the year ended December 31, 2014.

Note 13. Subsequent Events

In February 2015, we granted to each of our non-employee directors as annual compensation for serving on our board an option to purchase 200,000 shares of our common stock. In addition, we granted to the Chairman of our Audit Committee an additional option to purchase 50,000 shares of our common stock. The options were granted under our 2010 Stock Incentive Plan, as amended. These options have a three-year vesting period with one-year vesting immediately and the remainder of the options vesting equally over the next 24 months, have an exercise price of $2.20, the closing bid price of our common stock on the OTCQB on the date of the grant, and they expire in February 2025. All unvested options will immediately vest in the event of termination without cause, are transferable upon death and will be exercisable for a period of ten years after the grantee ceases to be director.

In March 2015, Terren S. Peizer, our Chairman and Chief Executive Officer, loaned the company $200,000. No terms were discussed nor were any agreements executed in connection with such loan, but we currently contemplate that the $200,000 will either be paid back out of our next significant financing or invested into such financing.

Exhibit 10.4

CATASYS, INC.

Stock Option Grant Notice
Stock Option Grant under the Company's
2010 Stock Incentive Plan

1. Name and Address of Participant: ____________________
____
____

2. Date of Option Grant: ____________________

3. Type of Grant: ____________________

4. Maximum Number of Shares for which this Option is exercisable: ____________________

5. Exercise (purchase) price per share: ____________________

6. Option Expiration Date: ____________________

7. Vesting Start Date[1]: ____________________

8. Vesting Schedule: This Option shall become exercisable (and the Shares issued upon exercise shall be vested) as follows provided the Participant is an Employee, director or Consultant of the Company or of an Affiliate on the applicable vesting date:

The foregoing rights are cumulative and are subject to the other terms and conditions of this Agreement and the Plan.

The Company and the Participant acknowledge receipt of this Stock Option Grant Notice and agree to the terms of the Stock Option Agreement attached hereto and incorporated by reference herein, the Company's 2010 Stock Incentive Plan and the terms of this Option Grant as set forth above.

CATASYS, INC.

By: ____________________
Name: ____________________
Title: ____________________

____
Participant

[1] This date is only necessary if the Company has decided to trigger vesting from a date that is different from the date of option grant such as a hire date and is to be used as a point of reference for future vesting only.

CATASYS, INC.

STOCK OPTION AGREEMENT - INCORPORATED TERMS AND CONDITIONS

AGREEMENT made as of the date of grant set forth in the Stock Option Grant Notice by and between Catasys, Inc. (the "Company"), a Delaware corporation, and the individual whose name appears on the Stock Option Grant Notice (the "Participant").

WHEREAS, the Company desires to grant to the Participant an Option to purchase shares of its common stock, $0.0001 par value per share (the "Shares"), under and for the purposes set forth in the Company's 2010 Stock Incentive Plan (the "Plan");

WHEREAS, the Company and the Participant understand and agree that any terms used and not defined herein have the same meanings as in the Plan; and

WHEREAS, the Company and the Participant each intend that the Option granted herein shall be of the type set forth in the Stock Option Grant Notice.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto agree as follows:

1. GRANT OF OPTION.

The Company hereby grants to the Participant the right and option to purchase all or any part of an aggregate of the number of Shares set forth in the Stock Option Grant Notice, on the terms and conditions and subject to all the limitations set forth herein, under United States securities and tax laws, and in the Plan, which is incorporated herein by reference. The Participant acknowledges receipt of a copy of the Plan.

2. EXERCISE PRICE.

The exercise price of the Shares covered by the Option shall be the amount per Share set forth in the Stock Option Grant Notice, subject to adjustment, as provided in the Plan, in the event of a stock split, reverse stock split or other events affecting the holders of Shares after the date hereof (the "Exercise Price"). Payment shall be made in accordance with Paragraph 9 of the Plan.

3. EXERCISABILITY OF OPTION.

Subject to the terms and conditions set forth in this Agreement and the Plan, the Option granted hereby shall become vested and exercisable as set forth in the Stock Option Grant Notice and is subject to the other terms and conditions of this Agreement and the Plan.

Notwithstanding the foregoing, in the event of a Change of Control (as defined below), 100% of the Shares which would have vested in each vesting installment remaining under this Option will be vested and exercisable for purposes of Section 24(b) of the Plan unless this Option has otherwise expired or been terminated pursuant to its terms or the terms of the Plan.

Change of Control means the occurrence of any of the following events:

(i) *Ownership*. Any “Person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the “Beneficial Owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company’s then outstanding voting securities (excluding for this purpose any such voting securities held by the Company or its Affiliates or any employee benefit plan of the Company) pursuant to a transaction or a series of related transactions which the Board of Directors does not approve; or

(ii) *Merger/Sale of Assets*. (A) A merger or consolidation of the Company whether or not approved by the Board of Directors, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or the parent of such corporation) more than 50% of the total voting power represented by the voting securities of the Company or such surviving entity or parent of such corporation, as the case may be, outstanding immediately after such merger or consolidation; or (B) the sale or disposition by the Company of all or substantially all of the Company’s assets in a transaction requiring stockholder approval; or

(iii) *Change in Board Composition*. A change in the composition of the Board of Directors, as a result of which fewer than a majority of the directors are Incumbent Directors. “Incumbent Directors” shall mean directors who either (A) are directors of the Company as of March __, 2011, or (B) are elected, or nominated for election, to the Board of Directors with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

(iv) “Change of Control” shall be interpreted, if applicable, in a manner, and limited to the extent necessary, so that it will not cause adverse tax consequences under Section 409A.

4. TERM OF OPTION.

This Option shall terminate on the Option Expiration Date as specified in the Stock Option Grant Notice and, if this Option is designated in the Stock Option Grant Notice as an ISO and the Participant owns as of the date hereof more than 10% of the total combined voting power of all classes of capital stock of the Company or an Affiliate, such date may not be more than five years from the date of this Agreement, but shall be subject to earlier termination as provided herein or in the Plan.

If the Participant ceases to be an Employee, director or Consultant of the Company or of an Affiliate for any reason other than the death or Disability of the Participant, or termination of the Participant for Cause (the “Termination Date”), the Option to the extent then vested and exercisable pursuant to Section 3 hereof as of the Termination Date, and not previously terminated in accordance with this Agreement, may be exercised within three months after the Termination Date, or on or prior to the Option Expiration Date as specified in the Stock Option Grant Notice, whichever is earlier, but may not be exercised thereafter except as set forth below. In such event, the unvested portion of the Option shall not be exercisable and shall expire and be cancelled on the Termination Date.

If this Option is designated in the Stock Option Grant Notice as an ISO and the Participant ceases to be an Employee of the Company or of an Affiliate but continues after termination of employment to provide service to the Company or an Affiliate as a director or Consultant, this Option shall continue to vest in accordance with Section 3 above as if this Option had not terminated until the Participant is no longer providing services to the Company. In such case, this Option shall automatically convert and be deemed a Non-Qualified Option as of the date that is three months from termination of the Participant's employment and this Option shall continue on the same terms and conditions set forth herein until such Participant is no longer providing service to the Company or an Affiliate.

Notwithstanding the foregoing, in the event of the Participant’s Disability or death within three months after the Termination Date, the Participant or the Participant’s Survivors may exercise the Option within one year after the Termination Date, but in no event after the Option Expiration Date as specified in the Stock Option Grant Notice.

In the event the Participant’s service is terminated by the Company or an Affiliate for Cause, the Participant’s right to exercise any unexercised portion of this Option even if vested shall cease immediately as of the time the Participant is notified his or her service is terminated for Cause, and this Option shall thereupon terminate. Notwithstanding anything herein to the contrary, if subsequent to the Participant’s termination, but prior to the exercise of the Option, the Administrator determines that, either prior or subsequent to the Participant’s termination, the Participant engaged in conduct which would constitute Cause, then the Participant shall immediately cease to have any right to exercise the Option and this Option shall thereupon terminate.

In the event of the Disability of the Participant, as determined in accordance with the Plan, the Option shall be exercisable within one year after the Participant’s termination of service due to Disability or, if earlier, on or prior to the Option Expiration Date as specified in the Stock Option Grant Notice. In such event, the Option shall be exercisable to the extent that the Option has become exercisable but has not been exercised on the date of the Participant’s termination of service due to Disability.

In the event of the death of the Participant while an Employee, director or Consultant of the Company or of an Affiliate, the Option shall be exercisable by the Participant's Survivors within one year after the date of death of the Participant or, if earlier, on or prior to the Option Expiration Date as specified in the Stock Option Grant Notice. In such event, the Option shall be exercisable to the extent that the Option has become exercisable but has not been exercised on the date of death.

5. METHOD OF EXERCISING OPTION.

Subject to the terms and conditions of this Agreement, the Option may be exercised by written notice to the Company or its designee, in substantially the form of Exhibit A attached hereto (or in such other form acceptable to the Company, which may include electronic notice). Such notice shall state the number of Shares with respect to which the Option is being exercised and shall be signed by the person exercising the Option (which signature may be provided electronically in a form acceptable to the Company). Payment of the Exercise Price for such Shares shall be made in accordance with Paragraph 9 of the Plan. The Company shall deliver such Shares as soon as practicable after the notice shall be received, provided, however, that the Company may delay issuance of such Shares until completion of any action or obtaining of any consent, which the Company deems necessary under any applicable law (including, without limitation, state securities or "blue sky" laws). The Shares as to which the Option shall have been so exercised shall be registered in the Company's share register in the name of the person so exercising the Option (or, if the Option shall be exercised by the Participant and if the Participant shall so request in the notice exercising the Option, shall be registered in the Company's share register in the name of the Participant and another person jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person exercising the Option. In the event the Option shall be exercised, pursuant to Section 4 hereof, by any person other than the Participant, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and nonassessable.

6. PARTIAL EXERCISE.

Exercise of this Option to the extent above stated may be made in part at any time and from time to time within the above limits, except that no fractional share shall be issued pursuant to this Option.

7. NON-ASSIGNABILITY.

The Option shall not be transferable by the Participant otherwise than by will or by the laws of descent and distribution. If this Option is a Non-Qualified Option then it may also be transferred pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules thereunder. Except as provided above in this paragraph, the Option shall be exercisable, during the Participant's lifetime, only by the Participant (or, in the event of legal incapacity or incompetency, by the Participant's guardian or representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of the Option or of any rights granted hereunder contrary to the provisions of this Section 7, or the levy of any attachment or similar process upon the Option shall be null and void.

8. NO RIGHTS AS STOCKHOLDER UNTIL EXERCISE.

The Participant shall have no rights as a stockholder with respect to Shares subject to this Agreement until registration of the Shares in the Company's share register in the name of the Participant. Except as is expressly provided in the Plan with respect to certain changes in the capitalization of the Company, no adjustment shall be made for dividends or similar rights for which the record date is prior to the date of such registration.

9. ADJUSTMENTS.

The Plan contains provisions covering the treatment of Options in a number of contingencies such as stock splits and mergers. Provisions in the Plan for adjustment with respect to stock subject to Options and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

10. TAXES.

The Participant acknowledges that any income or other taxes due from him or her with respect to this Option or the Shares issuable pursuant to this Option shall be the Participant's responsibility. The Participant acknowledges and agrees that (i) the Participant was free to use professional advisors of his or her choice in connection with this Agreement, has received advice from his or her professional advisors in connection with this Agreement, understands its meaning and import, and is entering into this Agreement freely and without coercion or duress; (ii) the Participant has not received and is not relying upon any advice, representations or assurances made by or on behalf of the Company or any Affiliate or any employee of or counsel to the Company or any Affiliate regarding any tax or other effects or implications of the Option, the Shares or other matters contemplated by this Agreement and (iii) neither the Administrator, the Company, its Affiliates, nor any of its officers or directors, shall be held liable for any applicable costs, taxes, or penalties associated with the Option if, in fact, the Internal Revenue Service were to determine that the Option constitutes deferred compensation under Section 409A of the Code.

If this Option is designated in the Stock Option Grant Notice as an ISO and there is a Disqualifying Disposition (as defined in Section 15 below) or if the Option is converted into a Non-Qualified Option and such Non-Qualified Option is exercised, the Participant agrees that the Company may withhold from the Participant's remuneration, if any, the minimum statutory amount of federal, state and local withholding taxes attributable to such amount that is considered compensation includable in such person's gross income. At the Company's discretion, the amount required to be withheld may be withheld in cash from such remuneration, or in kind from the Shares otherwise deliverable to the Participant on exercise of the Option. The Participant further agrees that, if the Company does not withhold an amount from the Participant's remuneration sufficient to satisfy the Company's income tax withholding obligation, the Participant will reimburse the Company on demand, in cash, for the amount under-withheld.

11. PURCHASE FOR INVESTMENT.

Unless the offering and sale of the Shares to be issued upon the particular exercise of the Option shall have been effectively registered under the Securities Act, the Company shall be under no obligation to issue the Shares covered by such exercise unless the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act and until the following conditions have been fulfilled:

(a) The person(s) who exercise the Option shall warrant to the Company, at the time of such exercise, that such person(s) are acquiring such Shares for their own respective accounts, for investment, and not with a view to, or for sale in connection with, the distribution of any such Shares, in which event the person(s) acquiring such Shares shall be bound by the provisions of the following legend which shall be endorsed upon any certificate(s) evidencing the Shares issued pursuant to such exercise:

"The shares represented by this certificate have been taken for investment and they may not be sold or otherwise transferred by any person, including a pledgee, unless (1) either (a) a Registration Statement with respect to such shares shall be effective under the Securities Act of 1933, as amended, or (b) the Company shall have received an opinion of counsel satisfactory to it that an exemption from registration under such Act is then available, and (2) there shall have been compliance with all applicable state securities laws;" and

(b) If the Company so requires, the Company shall have received an opinion of its counsel that the Shares may be issued upon such particular exercise in compliance with the Securities Act without registration thereunder. Without limiting the generality of the foregoing, the Company may delay issuance of the Shares until completion of any action or obtaining of any consent, which the Company deems necessary under any applicable law (including without limitation state securities or "blue sky" laws).

12. RESTRICTIONS ON TRANSFER OF SHARES.

12.1 The Participant agrees that in the event the Company proposes to offer for sale to the public any of its equity securities and such Participant is requested by the Company and any underwriter engaged by the Company in connection with such offering to sign an agreement restricting the sale or other transfer of Shares, then it will promptly sign such agreement and will not transfer, whether in privately negotiated transactions or to the public in open market transactions or otherwise, any Shares or other securities of the Company held by him or her during such period as is determined by the Company and the underwriters, not to exceed 180 days following the closing of the offering, plus such additional period of time as may be required to comply with Marketplace Rule 2711 of the National Association of Securities Dealers, Inc. or similar rules thereto (such period, the "Lock-Up Period"). Such agreement shall be in writing and in form and substance reasonably satisfactory to the Company and such underwriter and pursuant to customary and prevailing terms and conditions. Notwithstanding whether the Participant has signed such an agreement, the Company may impose stop-transfer instructions with respect to the Shares or other securities of the Company subject to the foregoing restrictions until the end of the Lock-Up Period.

12.2 The Participant acknowledges and agrees that neither the Company, its shareholders nor its directors and officers, has any duty or obligation to disclose to the Participant any material information regarding the business of the Company or affecting the value of the Shares before, at the time of, or following a termination of the service of the Participant by the Company, including, without limitation, any information concerning plans for the Company to make a public offering of its securities or to be acquired by or merged with or into another firm or entity.

13. NO OBLIGATION TO MAINTAIN RELATIONSHIP.

The Participant acknowledges that: (i) the Company is not by the Plan or this Option obligated to continue the Participant as an employee, director or Consultant of the Company or an Affiliate; (ii) the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (iii) the grant of the Option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (iv) all determinations with respect to any such future grants, including, but not limited to, the times when options shall be granted, the number of shares subject to each option, the option price, and the time or times when each option shall be exercisable, will be at the sole discretion of the Company; (v) the Participant’s participation in the Plan is voluntary; (vi) the value of the Option is an extraordinary item of compensation which is outside the scope of the Participant’s employment or consulting contract, if any; and (vii) the Option is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

14. IF OPTION IS INTENDED TO BE AN ISO.

If this Option is designated in the Stock Option Grant Notice as an ISO so that the Participant (or the Participant's Survivors) may qualify for the favorable tax treatment provided to holders of Options that meet the standards of Section 422 of the Code then any provision of this Agreement or the Plan which conflicts with the Code so that this Option would not be deemed an ISO is null and void and any ambiguities shall be resolved so that the Option qualifies as an ISO. The Participant should consult with the Participant's own tax advisors regarding the tax effects of the Option and the requirements necessary to obtain favorable tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements.

Notwithstanding the foregoing, to the extent that the Option is designated in the Stock Option Grant Notice as an ISO and is not deemed to be an ISO pursuant to Section 422(d) of the Code because the aggregate Fair Market Value (determined as of the Date of Option Grant) of any of the Shares with respect to which this ISO is granted becomes exercisable for the first time during any calendar year in excess of $100,000, the portion of the Option representing such excess value shall be treated as a Non-Qualified Option and the Participant shall be deemed to have taxable income measured by the difference between the then Fair Market Value of the Shares received upon exercise and the price paid for such Shares pursuant to this Agreement.

Notwithstanding the foregoing, if the Company's stockholders do not approve the Plan on or before December 9, 2011, to the extent that the Option is designated in the Stock Option Grant Notice as an ISO, it will be treated as a Non-Qualified Option.

Neither the Company nor any Affiliate shall have any liability to the Participant, or any other party, if the Option (or any part thereof) that is intended to be an ISO is not an ISO or for any action taken by the Administrator, including without limitation the conversion of an ISO to a Non-Qualified Option.

15. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION OF AN ISO.

If this Option is designated in the Stock Option Grant Notice as an ISO then the Participant agrees to notify the Company in writing immediately after the Participant makes a Disqualifying Disposition of any of the Shares acquired pursuant to the exercise of the ISO. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any disposition (including any sale) of such Shares before the later of (a) two years after the date the Participant was granted the ISO or (b) one year after the date the Participant acquired Shares by exercising the ISO, except as otherwise provided in Section 424(c) of the Code. If the Participant has died before the Shares are sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

16. CALIFORNIA CORPORATE SECURITIES LAW.

THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION OR IN THE ABSENCE OF AN EXEMPTION FROM SUCH QUALIFICATION IS UNLAWFUL. PRIOR TO ACCEPTANCE OF SUCH CONSIDERATION BY THE COMPANY, THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED OR AN EXEMPTION FROM SUCH QUALIFICATION BEING AVAILABLE.

17. <u>NOTICES</u>.

Any notices required or permitted by the terms of this Agreement or the Plan shall be given by recognized courier service, facsimile, registered or certified mail, return receipt requested, addressed as follows:

If to the Company:

Catasys, Inc.
11601 Wilshire Blvd, Suite 950
Los Angeles, California 90025
Attention: Susan Etzel

If to the Participant at the address set forth on the Stock Option Grant Notice or to such other address or addresses of which notice in the same manner has previously been given. Any such notice shall be deemed to have been given upon the earlier of receipt, one business day following delivery to a recognized courier service or three business days following mailing by registered or certified mail.

18. <u>GOVERNING LAW</u>.

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of law principles thereof. For the purpose of litigating any dispute that arises under this Agreement, the parties hereby consent to exclusive jurisdiction in California and agree that such litigation shall be conducted in the state courts of Los Angeles, California or the federal courts of the United States for the District of California.

19. <u>BENEFIT OF AGREEMENT</u>.

Subject to the provisions of the Plan and the other provisions hereof, this Agreement shall be for the benefit of and shall be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto.

20. <u>ENTIRE AGREEMENT</u>.

This Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Agreement shall affect or be used to interpret, change or restrict, the express terms and provisions of this Agreement, provided, however, in any event, this Agreement shall be subject to and governed by the Plan.

21. MODIFICATIONS AND AMENDMENTS.

The terms and provisions of this Agreement may be modified or amended as provided in the Plan.

22. WAIVERS AND CONSENTS.

Except as provided in the Plan, the terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

23. DATA PRIVACY.

By entering into this Agreement, the Participant: (i) authorizes the Company and each Affiliate, and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of options and the administration of the Plan; (ii) waives any data privacy rights he or she may have with respect to such information; and (iii) authorizes the Company and each Affiliate to store and transmit such information in electronic form.

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Exhibit A

NOTICE OF EXERCISE OF STOCK OPTION

[Form for Shares registered in the United States]

To: Catasys, Inc.

IMPORTANT NOTICE: This form of Notice of Exercise may only be used at such time as the Company has filed a Registration Statement with the Securities and Exchange Commission under which the issuance of the Shares for which this exercise is being made is registered and such Registration Statement remains effective.

Ladies and Gentlemen:

I hereby exercise my Stock Option to purchase _________ shares (the "Shares") of the common stock, $.0001 par value, of Catasys, Inc. (the "Company"), at the exercise price of $________ per share, pursuant to and subject to the terms of that Stock Option Grant Notice dated _______________, 200_.

I understand the nature of the investment I am making and the financial risks thereof. I am aware that it is my responsibility to have consulted with competent tax and legal advisors about the relevant national, state and local income tax and securities laws affecting the exercise of the Option and the purchase and subsequent sale of the Shares.

I am paying the option exercise price for the Shares as follows:

____

Please issue the Shares (check one):

☐ to me; or

☐ to me and ____________________________, as joint tenants with right of survivorship,

at the following address:

____

____

____

My mailing address for shareholder communications, if different from the address listed above, is:

____
____
____

Very truly yours,

____
Participant (signature)

____
Print Name

____
Date

EXHIBIT 10.27

FIRST AMENDMENT

THIS FIRST AMENDMENT (this "**Amendment**") is made and entered into as of March 6, 2015, by and between **TRIZEC WILSHIRE CENTER, LLC, a Delaware limited liability company** ("**Landlord**"), and **CATASYS, INC., a Delaware corporation**.

RECITALS

A. Landlord and Tenant are parties to that certain lease dated November 6, 2013 (the "**Original Lease**"), as previously amended by Confirmation Letter dated January 15, 2014 (as amended, the "**Lease**"). Pursuant to the Lease, Landlord has leased to Tenant space currently containing approximately **9,076** rentable square feet (the "**Existing Premises**") described as Suite No. 950 on the ninth (9^{th}) floor of the building commonly known as **Wells Fargo Center (formerly known as Wachovia Center)** located at 11601 Wilshire Boulevard, Los Angeles, California (the "**Building**").

B. The parties wish to relocate the Premises (defined in the Lease) from the Existing Premises to the space containing approximately **9,120** rentable square feet described as Suite No. 1100 on the 11th floor of the Building and shown on **<u>Exhibit A</u>** attached hereto (the "**Substitution Space**"), on the following terms and conditions.

NOW, THEREFORE, in consideration of the above recitals which by this reference are incorporated herein, the mutual covenants and conditions contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. **<u>Substitution</u>.**

1.1. **Substitution Term.** From and after the Substitution Effective Date (defined in <u>Section 1.1.A</u> below), the Premises shall be the Substitution Space, subject to the terms hereof (the "**Substitution**"). The term of the Lease for the Substitution Space (the "**Substitution Term**") shall commence on the Substitution Effective Date and, unless sooner terminated in accordance with the Lease, end on the last day of the term of the Lease (which the parties acknowledge is **April 30, 2019**). From and after the Substitution Effective Date, the Substitution Space shall be subject to all the terms and conditions of the Lease except as provided herein. Except as may be expressly provided herein, Tenant shall not be entitled to receive, with respect to the Substitution Space, any allowance, free rent or other financial concession granted with respect to the Existing Premises.

A. <u>Substitution Effective Date</u>. As used herein, "**Substitution Effective Date**" means the earlier to occur of (i) the first business day on which Tenant conducts normal business operations in the Substitution Space, or (ii) the first business day after the Tenant Improvement Work (defined in **<u>Exhibit B</u>** attached hereto) is Substantially Complete (defined in **<u>Exhibit B</u>** attached hereto, Section 6.1 herein and inclusive of the cabling and finishes as provided for herein) and Tenant has been moved from the Existing Premises to the Substitution Space as provided below, which date is anticipated to be **June 1, 2015** (the "**Target Substitution Effective Date**"). Landlord agrees to provide Tenant notice three weeks prior to the Substantial Completion of the Tenant Improvement Work to enable Tenant to prepare for and finalize its relocation plans. Landlord and Tenant shall work together in good faith to complete Tenant's relocation into the Substitution Space in a timely and efficient manner, while minimizing the level of disruption to Tenant's business in connection with such relocation. Without limitation, Landlord and Tenant shall coordinate Tenant's relocation into the Substitution Space so that the move will occur over the first weekend following the Substantial Completion of the Tenant Improvement Work. The adjustment of the Substitution Effective Date and, accordingly, the postponement of Tenant's obligation to pay rent for the Substitution Space shall be Tenant's sole remedy if the Tenant Improvement Work is not Substantially Complete on the Target Substitution Effective Date. Without limiting the foregoing, during any period that the Substitution Effective Date is delayed, Tenant shall continue to pay rent for the Existing Premises in accordance with the terms of the Lease. If the Substitution Effective Date is delayed, the expiration date under the Lease shall not be similarly extended.

B. Confirmation Letter. At any time after the Substitution Effective Date, Landlord may deliver to Tenant a notice substantially in the form of **Exhibit C** attached hereto, as a confirmation of the information set forth therein. Tenant shall execute and return (or, by written notice to Landlord, reasonably object to) such notice within fourteen (14) days after receiving it.

1.2. **Existing Premises.** Subject to the terms hereof, effective as of the Existing Premises Expiration Date (defined below), the term of the Lease shall expire with respect to the Existing Premises with the same force and effect as if such term were, by the provisions of the Lease, fixed to expire with respect to the Existing Premises on the Existing Premises Expiration Date. As used herein, "**Existing Premises Expiration Date**" means the Substitution Effective Date. Without limiting the foregoing:

A. Tenant shall surrender the Existing Premises to Landlord in accordance with the terms of the Lease on or before the Existing Premises Expiration Date, except that Tenant shall not be required to remove any Lines located in the Existing Premises or make any repairs resulting from removal and move of Tenant's equipment to the Substitution Space or any repairs that would be rendered moot as a result of Landlord's construction plans in the Existing Space.

B. Tenant shall remain liable for all Rent and other amounts payable under the Lease with respect to the Existing Premises for the period up to and including the Existing Premises Expiration Date, even though billings for such amounts may occur after the Existing Premises Expiration Date.

C. If Tenant fails to surrender any portion of the Existing Premises on or before the Existing Premises Expiration Date, Tenant's tenancy with respect to the Existing Premises shall be subject to Section 16 of the Original Lease.

D. Any other rights or obligations of Landlord or Tenant under the Lease relating to the Existing Premises that, in the absence of the Substitution, would have survived the expiration date of the Lease shall survive the Existing Premises Expiration Date.

2. **Base Rent.** With respect to the Substitution Space during the Substitution Term, Tenant shall pay Base Rent in accordance with the terms of the Original Lease.

3. **Additional Security Deposit.** No additional security deposit shall be required in connection with this Amendment.

4. **Tenant's Share.** With respect to the Substitution Space during the Substitution Term, Tenant's Share shall be the same as provided under the Original Lease, i.e., **1.8135%** .

5. **Expenses and Taxes.** With respect to the Substitution Space during the Substitution Term, Tenant shall pay for Tenant's Share of Expenses and Taxes in accordance with the terms of the Lease; including, but not limited to, the retention of the calendar year **2014** Base Year.

6. **Improvements to Substitution Space.**

6.1. **Condition and Configuration of Substitution Space.** Tenant acknowledges that it has inspected the Substitution Space and, subject to Landlord's obligation to complete the Tenant Improvement Work, agrees to accept it in its existing condition and configuration, without any representation by Landlord regarding its condition or configuration and without any obligation on the part of Landlord to perform or pay for any alteration or improvement, except as may be otherwise expressly provided in this Amendment. Notwithstanding anything contained herein to the contrary, Landlord represents that all Base Building systems serving the Substitution Space are in good working order as of the date of this Amendment. If any such Base Building systems are not in good working order as of the date of this Amendment, Landlord shall be responsible for repairing or restoring the same at Landlord's cost and without inclusion in Expenses.

6.2. **Responsibility for Improvements to Substitution Space.** Landlord shall perform improvements to the Substitution Space in accordance with **Exhibit B** attached hereto.

7. **<u>Parking</u>**. During the Substitution Term, Tenant shall retain its existing parking rights as set forth in the Lease.

8. **<u>Signs</u>**. Landlord, at Landlord's cost, shall provide tenant directory signage and suite identity signage for the Substitution Space as provided in Section 25.4 of the Original Lease.

9. **<u>Relocation Costs</u>**. Pursuant to Section 22 of the Original Lease, Landlord shall, within fifteen (15) days following Tenant's written request therefor together with third-party invoices for the costs incurred, reimburse Tenant for reasonable costs incurred by Tenant in connection with: (a) moving from the Existing Premises to the Substitution Space, (b) installation of Lines in the Substitution Space, and (c) reprinting of stationery as a result of Tenant's relocation. Notwithstanding the foregoing, Landlord shall have the right to contract directly for the costs and services described in (a) and (b) above and pay such contractor(s) directly for the cost of services provided.

10. **<u>Other Pertinent Provisions</u>.** Landlord and Tenant agree that, effective as of the date of this Amendment (unless different effective date(s) is/are specifically referenced in this Section), the Lease shall be amended in the following additional respects:

10.1. **California Public Resources Code § 25402.10.** If Tenant (or any party claiming by, through or under Tenant) pays directly to the provider for any energy consumed at the Building, 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 mortgage lender under California Public Resources Code § 25402.10 or any similar law.

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

10.3 **<u>Contingency</u>**. This Amendment is specifically contingent on Landlord leasing the Existing Premises to **Hudson Pacific Properties, Inc, a Maryland corporation** (the "**New Tenant**"). Landlord is currently negotiating the terms of a lease amendment (the "**New Agreement**") with the New Tenant. If the New Agreement has not been fully executed, and if all contingencies relating thereto have not been waived by Landlord or otherwise satisfied, on or before 15 days after the date on which this Amendment is executed by Landlord and Tenant (the "**Contingency Date**"), then Landlord may terminate this Amendment by notifying Tenant on or before 10 days after the Contingency Date, whereupon this Amendment shall be null and void and of no force or effect, and the Lease shall continue in full force and effect as if this Amendment had not been executed.

11. **<u>Miscellaneous</u>.**

11.1. This Amendment and the attached exhibits, which are hereby incorporated into and made a part of this Amendment, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Tenant shall not be entitled, in connection with entering into this Amendment, to any free rent, allowance, alteration, improvement or similar economic incentive to which Tenant may have been entitled in connection with entering into the Lease, except as may be otherwise expressly provided in this Amendment.

11.2. Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.

11.3. In the case of any inconsistency between the provisions of the Lease and this Amendment, the provisions of this Amendment shall govern and control.

11.4. Submission of this Amendment by Landlord is not an offer to enter into this Amendment but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Amendment until Landlord has executed and delivered it to Tenant.

11.5. Capitalized terms used but not defined in this Amendment shall have the meanings given in the Lease.

11.6. Tenant shall indemnify and hold Landlord, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, mortgagee(s) and agents, and the respective principals and members of any such agents harmless from all claims of any brokers claiming to have represented Tenant in connection with this Amendment. Landlord shall indemnify and hold Tenant, its trustees, members, principals, beneficiaries, partners, officers, directors, employees, and agents, and the respective principals and members of any such agents harmless from all claims of any brokers claiming to have represented Landlord in connection with this Amendment. Tenant acknowledges that any assistance rendered by any agent or employee of any affiliate of Landlord in connection with this Amendment has been made as an accommodation to Tenant solely in furtherance of consummating the transaction on behalf of Landlord, and not as agent for Tenant.

11.7 This Amendment shall be governed by and construed in accordance with the laws of the State of California (without regard to conflicts of law).

11.8 This Amendment may be executed in multiple counterparts, all of which, when taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Amendment as of the day and year first above written.

LANDLORD:

TRIZEC WILSHIRE CENTER, LLC, a Delaware limited liability company

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

TENANT:

CATASYS, INC., a Delaware corporation

By: /s/ Susan Etzel

Name: Susan Etzel

Title: CFO

EXHIBIT A

<u>OUTLINE AND LOCATION OF SUBSTITUTION SPACE</u>

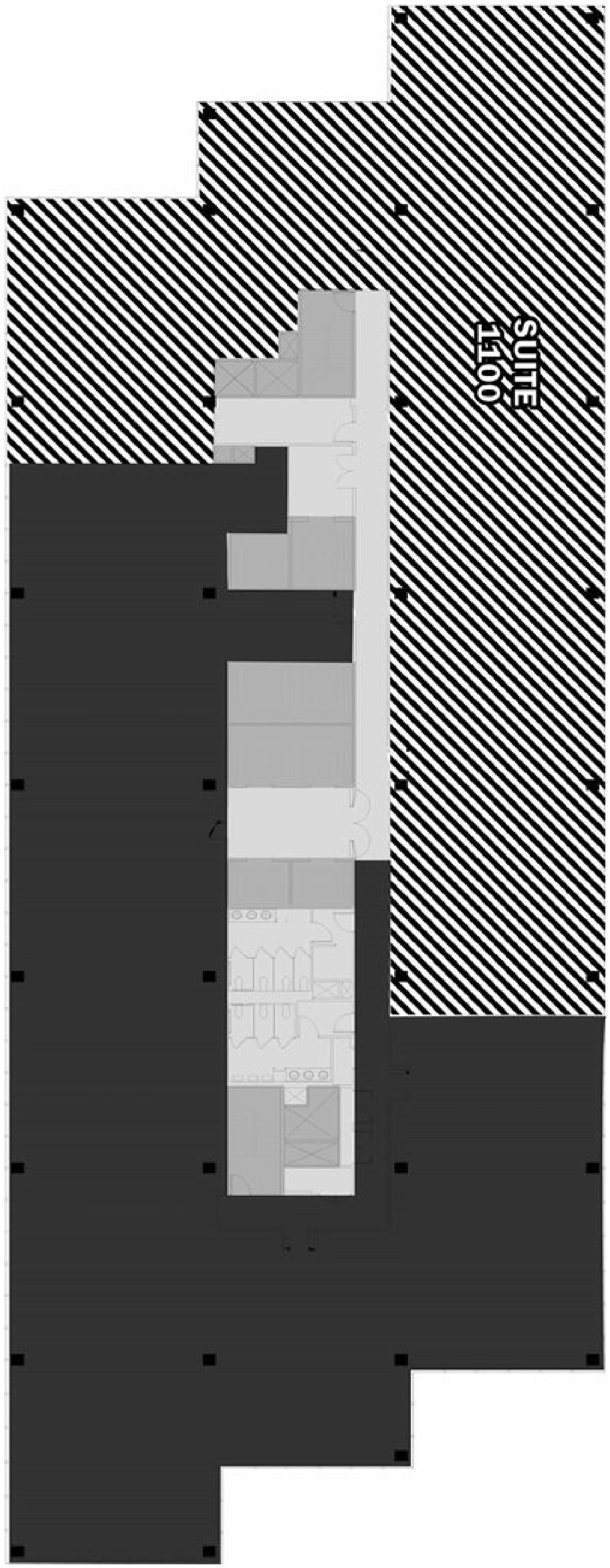

EXHIBIT B

WORK LETTER

As used in this **Exhibit B** (this "**Work Letter**"), the following terms shall have the following meanings: "**Agreement**" means the Amendment of which this Work Letter is a part. "**Premises**" means the Substitution Space. "**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 COST OF TENANT IMPROVEMENT WORK. Except as provided in Section 2.4 below (i.e. with respect to changes requested by Tenant after Tenant's approval of the Approved Construction Drawings, which changes increase the cost of the previously approved Tenant Improvement Work), the Tenant Improvement Work shall be performed at Landlord's expense. In addition, Landlord shall provide Tenant with an allowance (the "**Furniture Allowance**") in an amount not to exceed $3,000.00 to be applied toward the cost of a new conference table (and, if applicable, chairs) purchased by Tenant for the Substitution Space. Landlord shall disburse the Furniture Allowance, or applicable portion thereof, to Tenant on or before the later to occur of: (i) thirty (30) days after Landlord's receipt of a paid invoice from Tenant with respect to Tenant's purchase of the conference table (and, if applicable, chairs); or (ii) the Substitution Effective Date.

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. Without limitation, Landlord may withhold consent to any requests that are materially beyond the scope of work as referenced in the Space Plan. 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.

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 **Intentionally Omitted.**

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 cause the Contractor to provide Tenant with a statement setting forth the increase, if any, in the cost of the Tenant Improvement Work that results directly from Tenant's requested revision (a "**Revision Cost Statement**"). Landlord shall perform its obligations under the prior sentence as soon as reasonably possible to minimize or avoid any delays in the performance of the Tenant Improvement Work. Tenant, within one (1) business day after receipt of a Revision Cost Statement, shall notify Landlord whether it desires to proceed with such revision. If Tenant desires to proceed with such revision, Tenant shall pay Landlord for the increased cost (if any) set forth on the Revision Cost Statement within twenty (20) days after Tenant's receipt of the Revision Cost Statement. 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 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 **Intentionally Omitted.**

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 not be required to pay a construction supervision and management fee in connection with the Tenant Improvement Work.

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 different from the finishes in the Existing Premises and 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 Substitution Effective 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 Substitution Effective 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.

EXHIBIT B-1

APROVED SPACE PLAN

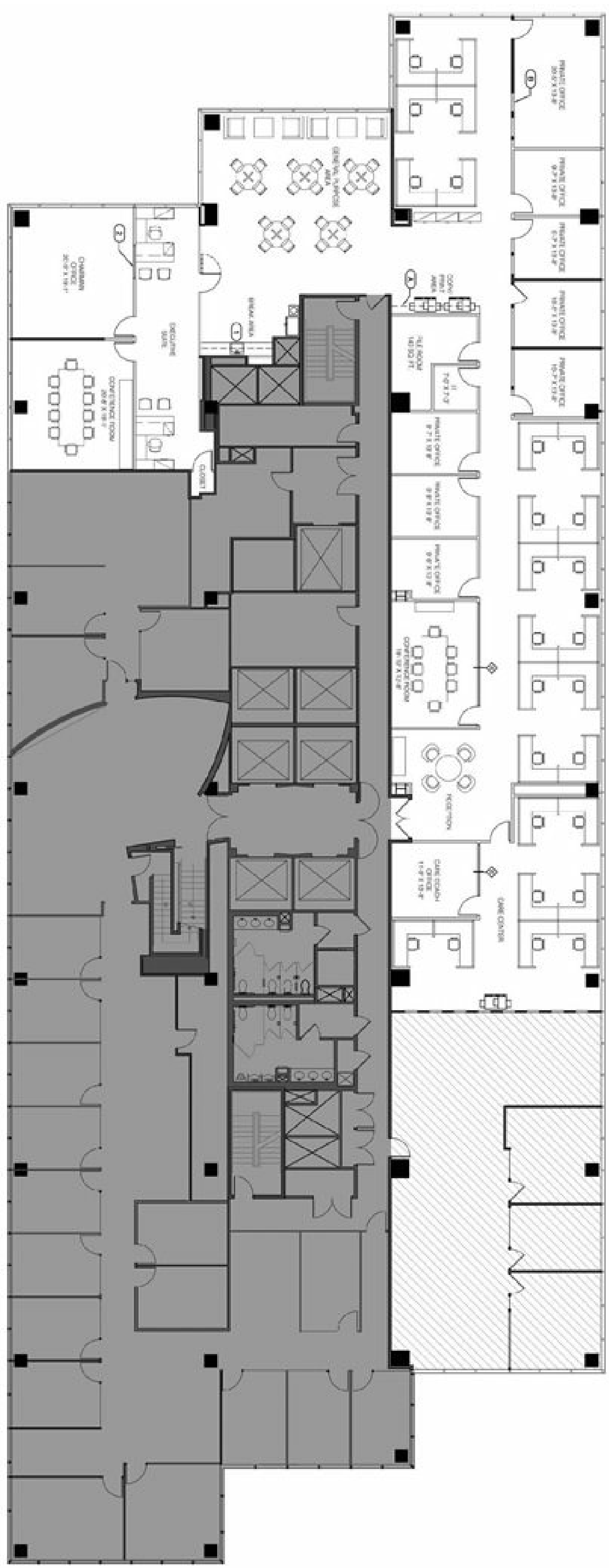

EXHIBIT C

NOTICE OF LEASE TERM DATES

_____________________, 20__

To: _______________________
____
____
____

Re: ____________ Amendment (the "**Amendment**"), dated ______________, 20____, to a lease agreement dated _______________, 20____, between ____________________________, a _________________________ ("**Landlord**"), and _______________________________, a _____________________ ("**Tenant**"), concerning Suite _____ on the _______ floor of the building located at ___________________, _____________________ California (the "**Substitution Space**").

Lease ID: _____________________________
Business Unit Number: __________________

Dear _________________:

In accordance with the Amendment, Tenant accepts possession of the Substitution Space and confirms that (a) the Substitution Effective Date is _____________, 20___, and (b) the expiration date of the Lease is ___________, 20___.

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, under Section 1.1.B of the Amendment, Tenant is required to execute and return (or reasonably object in writing to) this letter within fourteen (14) days after receiving it.

"Landlord":

________________________________,
a _________________________

By: ______________________________
Name: ______________________________
Title: ______________________________

Agreed and Accepted as
of _, 20_.

"Tenant":

________________________________,
a _________________________

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT 21.1

List of Subsidiaries at December 31, 2014

The following table sets forth the name and jurisdiction of incorporation of our subsidiaries. Each subsidiary is owned, directly or indirectly, by us.

Name	**Jurisdiction of Incorporation**
Catasys Health Minnesota, Inc.	Minnesota
Anxiolitix, Inc.	Delaware
Catasys International (Cayman), Ltd.	Cayman Islands
Catasys Switzerland, Sarl	Switzerland
Catasys Health, Inc.	Delaware

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Catasys, Inc.
Los Angeles, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 Nos. 333-121634, 333-123772, 333-128544, 333-128931, 333-140114, 333-140593, 333-140594, 333-145906, 333-147188, and 333-153053 and on Form S-8 Nos. 333-123773, 333-136446, 333-149766, 333-153054, 333-173659 and 333-173662 of Catasys, Inc. of our report dated March 30, 2015, with respect to the financial statements of Catasys, Inc. as of and for the years ended December 31, 2014 and 2013, appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Our report relating to the consolidated financial statements contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

/s/ Rose, Snyder & Jacobs LLP
Encino, California

March 30, 2015

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
RULE 13-a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Terren S. Peizer certify that:

1. I have reviewed this annual report on Form 10-K 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 reasonable 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: March 31, 2015

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

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
RULE 13-a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Susan Etzel, certify that:

1. I have reviewed this annual report on Form 10-K 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 reasonable 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: March 31, 2015

/s/ SUSAN ETZEL
Susan Etzel
Chief Financial Officer
(*Principal Financial Officer and Principal 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 Annual Report on Form 10-K of Catasys, Inc. (the Company) for the fiscal year ended December 31, 2014, 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, to the best of my knowledge and belief, 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	March 31, 2015
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 Annual Report on Form 10-K of Catasys, Inc. (the Company) for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Susan Etzel, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, 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	March 31, 2015
Susan Etzel	Date
Chief Financial Officer	
(Principal Financial Officer and Principal Accounting Officer)	