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Catasys (CATS): Where are the Customers' Savings? Wait, where are the Customers?

"Belfort ... The Wolf of Wall Street. He was a kitten ... I'm a pussy cat."

[Catasys CEO Terren Peizer](#)

Catasys is a \$411 million stock promotion run by Chairman and CEO Terren Peizer, a long-time criminal associate and stock promoter. We believe Peizer and Catasys have made numerous false and misleading statements spanning the Company's customers, products, business practices and financial metrics, and shares are worthless.

We believe that UnitedHealthcare, which the Company claimed to contract with in February 2017, has never paid Catasys a dime. In the words of a former Catasys executive we spoke with, "It was a deal that was created out of thin air." Nevertheless, Catasys continued to imply that it was partnered with UnitedHealth on investor presentations through at least January 2020, and Peizer has continually claimed to be signed with "7 of the top 8 health insurers in the U.S." We believe that in addition to the apparent fabrication of the UnitedHealth contract, Catasys's numerous other press releases which tout contracts, yet do not name customers, are also suspect.

Apparent fake contracts aside, the majority of customers who do sign with Catasys do so merely under small pilot agreements with generous financial guarantees from Catasys. Peizer claimed that "each one of our health plan partners has expanded from their initial launch" and "I expect all these plans to go national," yet, we've found at least 6 previously hyped insurers that have been removed from the Company's investor presentation and, we believe no longer offer Catasys's OnTrak program. Moreover, we believe that Catasys has failed to disclose that HCSC, an insurer which remains proudly displayed on the April 2020 presentation, placed OnTrak into run-off 9 months ago. As many of these pilot agreements have significant financial guarantees, we believe Catasys is also failing to disclose contingent liabilities, which we estimate at thousands of dollars per member.

Catasys purports to be an AI-enabled telehealth company. We believe the reality is much more mundane. In our view, the Company's core assets are telemarketers who merely seek to enroll patients with recent one-time, high-cost claims. Thus, as members then fail to repeat these claims the next year, Catasys thus fabricates "savings" to show to insurers. Per a Care Coach we spoke with: "Basically, if you've got a patient with an \$80,000 bilateral knee replacement, those [costs] won't fall off until next year. So we'd enroll them into the program because we knew they wouldn't have another surgery next year ... a good 50-60% of those [members] were those situations."

Over the last 5 years, Peizer has made numerous claims to revenue and profits, yet the Company has fallen short of long-term goals every time. Share count, however, has blown out from <1M in 2012 to 17M today. Peizer still claimed just weeks ago that "our metrics are going to keep improving ... and I'm excited that next year we'll be talking about profitability." We believe Catasys is structurally unprofitable. We also found evidence that the Company is exaggerating claims to a 20% outreach pool enrollment rate and 80% OnTrak member retention. We also express concerns about the Company's "proprietary provider network", with whom Catasys has signed service agreements even as insiders were named on the entities' formation documents several months earlier.

While Peizer and 3 paid promotion outfits parade the Company, the Company's long-time CMO, long-time COO, and 2 CFOs have paraded out the door. The Company has also changed auditors; neither the old nor the new are "Big 4". Within the past year, Catasys has taken on increasingly expensive debt, reflective of the distressed business that it is. We believe the balance sheet now leaves the Company with no room for error, and as it once again fails to live up to its promotional claims, shares will be found worthless.

The Catasys OnTrak promotion is this shell's third attempt at a viable business

Terren Peizer has a long history of both demonstrated and alleged stock promotion, which he has conducted alongside known criminals. For more comprehensive details on Peizer's civil and criminal judgement history, we direct readers to the appendix at the end of this report. We count at least 17 issuers financed by Peizer whose shares are down 97% or more from highs. Peizer also has a habit of acquiring majority stakes in companies, promoting their shares, then dumping his stakes as the companies implode, leaving minority shareholders the bag. At Hollis-Eden Pharmaceuticals, Peizer touted a bogus AIDS cure. At Advanced Promotion Technologies, Peizer touted an electronic barcode marketing system. At Urethane Technologies, Peizer touted a bike tire that wouldn't go flat. We believe that this playbook is unfolding once again at Catasys.

In 2003, Peizer lent \$300,000 to [CITA Americas, Inc. / CITA Biomedical, Inc.](#) (formerly OTC:DTOX). CITA [was itself](#) a reverse merger that [claimed](#) to be a "growing leader in the treatment of addiction dependency" by way of its "DNA" or "Detoxification and NeuroAdaptation" solution sold to medical treatment centers. CITA also touted "Ultra Rapid Opiate Detoxification," or UROD, but the broader medical community [considered](#) UROD ineffective and dangerous. As CITA floundered, Peizer [foreclosed](#) on his \$300,000 loan, acquiring the Company's UROD assets in the process. These assets then formed the basis of Catasys, which went public through a [reverse merger](#) in October 2003 as Hythiam, Inc (OTC:HYTM). Hythiam offered its "PROMETA Treatment Program" which, per the [Company's 10-K](#), sought "to treat individuals diagnosed with dependencies to alcohol, cocaine or methamphetamine."

PROMETA was a colossal flop. Despite the Company having paid for a study which claimed that 80% of patients "experienced a significant clinical benefit" from the program, actual [scientific journals](#) later found that "The PROMETA Protocol ... appears to be no more effective than placebo in reducing methamphetamine use, retaining patients in treatment or reducing methamphetamine craving." CBS News [called it](#) "selling hope to the desperate" and Peizer "a snake oil salesman." This marked the beginning of the end for Catasys's first promotion:



By year-end 2010, the Company had generated an accumulated deficit of \$202.8 million. In March 2011, Hythiam [changed its name](#) to Catasys, Inc. (OTC:CATS) and dropped all references to PROMETA, replacing it with the eerily similar OnTrak program, which "help[s] organizations treat members with substance dependence to improve

member health and lower the overall costs of these members.” For this program, Catasys charges insurers appx. \$6,500 on a per member, per month (PMPM) basis. In February 2017, the Company filed to raise \$15 million in an [IPO and NASDAQ uplisting](#), concurrent with a reverse split to meet minimum listing requirements.

We believe Catasys falsely claimed to be contracted with UnitedHealthcare

From February 2017 onward, Catasys touted its UnitedHealthcare relationship, yet we have found evidence to suggest that this contract never truly existed. This began with a February 2, 2017 [press release](#) claiming to have “contracted with the largest national health insurance company in the United States,” which even detailed the supposed fee structure:

Catasys, Inc. announced today that it has contracted with the largest national health insurance company in the United States (the "Insurer") to implement its OnTrak solution for anxiety, depression and substance use disorders (OnTrak-U). OnTrak-U is anticipated to launch in the first half of 2017 in eight states where OnTrak is already available to members of other leading health plans, with a case rate fee when members enroll plus a sharing of savings with the health plan.

On the Company’s Q1 2017 conference call that March, the insurer was named explicitly as UnitedHealthcare, and again confirmed in the list of insurers touted in the Company’s April 2017 investor [presentation](#). On the Q2 2017 call in August 2017, Peizer reaffirmed the imminent launch:

“So, getting everything aligned everything signed off down to crossing the T.'s and dotting the I's is an arduous process that said. For what it's worth, we think we're at the end of the lake, at the end of the tunnel and I think it's ready for launch and hopefully over the next 30 to no more than 60 days we hope we can announce that we've launched with United HealthCare Optum.”

On the Company’s Q3 2017 call in November 2017, Peizer then admitted that the previously-touted “contract” had not panned out:

“We were hiring the care coaches and outreach personnel in anticipation of United Healthcare launch, as well as the Humana launch. And obviously, that didn’t happen.”

We are dumbfounded as to how the Company could claim in February that it was “contracted,” and even offer specific details as to the fee structure, while 5 months later the Company still had to “cross the T’s and dot the I’s” and another 3 months after that that it “didn’t happen.” **We asked a former executive at the Company about the relationship with UnitedHealth, and this executive stated that “It was a deal that was created out of thin air.”** On the Company’s March 2019, Q4 2018 call, the last public mention of UnitedHealth that we can find, Peizer once again claimed to be close to launching: “We are getting close to launching with United and we are getting closer with Optum. But, it's not done till it's done. But we're getting closer. We're very close.” We were further perplexed to find that UnitedHealthcare remained on the Company’s investor presentation through January 2020:



As compared to April 2020, when UnitedHealth was finally removed along with several others:



In our view, the situation demonstrates again that Peizer prefers churning out unsubstantiated press releases to building a serious healthcare business. Moreover, we find it especially curious that Catasys has made a habit of issuing press releases alluding to contract signings or expansions, yet frequently declines to name the insurer in question. One former employee we spoke with suggested that the Company was “pre-empting” contract signings.

Catasys entices insurers with financial guarantees, then games cost savings

Catasys’s pitch to insurers claims that it possesses a unique ability to engage with a difficult-to-reach, high-cost population (those suffering from drugs and alcohol, depression, and abuse), leading to 5 to 1 returns from cost savings generated from the program. As insurers are naturally skeptical of these claims, Catasys alleviates concerns by offering pilot programs and guaranteeing cost savings; in the case of HCSC, an executive described to us that these guarantees amounted to 200% of what HCSC paid Catasys. As such, the executive stated that, “Financially, HCSC wasn’t ever going to take a loss.”

However, once these pilot programs are launched, we believe the Company intentionally enrolls patients who have incurred high cost, one-time claims so as to inflate pre-program costs and game “cost savings” shown to insurers. In the words of a former Care Coach we spoke with:

“Basically, if you’ve got a patient with an \$80,000 bilateral knee replacement, those [costs] won’t fall off until next year. **So we’d enroll them into the program because we knew they wouldn’t have another surgery next year** ... we had a lot of those [one-time cost] situations ... Out of 100% of cases, a good 50 or 60% of those were those situations.”

In the words of a separate Care Coach:

“Oh absolutely. **Tons with heart surgery or hip surgery. Those were the golden ones** ... You knew if they just had a surgery or a baby, there was no question they’d be in the program.”

Thus, while the Company posits that improvements in post-program claims data indicate OnTrak’s effectiveness, we view the differences as a function of the Company’s cost gaming. Insurers are not oblivious to this game; per one customer we spoke with:

“We couldn’t attribute it [savings] to Catasys at all ... We presented that to them, and then they started to – well, manipulation is a strong word, but they started to present very convenient ways of showing the information, and that’s when trust started to diminish...”

Per another separate former Catasys executive we spoke with, “When they [insurers] look at Catasys, they believe these people might indeed get better on their own, that the savings are not necessarily real.” We believe that Catasys’s tendency to publicly exaggerate its contracts while failing to deliver genuine cost savings to insurers has led to strained industry relationships, communicated to us through interviews with industry professionals. While

the Company issues frequent press releases on supposed new business, it is conspicuously quiet about the swath of insurers who have left, including large national plans.

Numerous insurance customers are ditching or have already ditched Catasys

In March 2019, Peizer claimed that “**Each one of our health plan partners has expanded** from their initial launch either geographically, through other lines of business. And now, they're expanding with us in our new products and our new lines of business” and that “**I expect all these plans to go national because it does work**, it does – it stands up to the scrutiny of the actuaries.” We have difficulty confirming that these claims are at all grounded in reality. Instead, we find that numerous insurers have ditched, or are in the process of ditching Catasys for the exact opposite reason: it doesn't work, and it doesn't stand up to scrutiny.

We believe HCSC was placed into runoff 9 months ago

We believe the Company has failed to disclose that its relationship with HCSC was placed into runoff 9 months ago owing to non-performance of its guaranteed savings levels. This is a contract that Peizer frequently touted as recently as August and November 2018, suggesting that further expansion was a possibility:

“In January 2018, we expanded OnTrak with HCSC, the nation's second largest Blue Cross Blue Shield Health Plan for the treatment of anxiety, depression and substance use disorders into Illinois. This is the second state, where we have launched programs with this partner following the successful OnTrak-HC launch in Oklahoma in August of 2017. We continue to be in discussions regarding further expansion with HCSC validating that our partners see the value of our OnTrak solution in identifying and gauging and treating members.”

However, our conversations with executives with knowledge of the program describe that Catasys's performance under the contract simply failed to live up to their promises of minimum 2 to 1 savings over a two-year period.

When we inquired as to why Catasys did not meet savings minimums, the executive confirmed that “their algorithm looks at spikes [in costs] and people who are coming off spikes.” As such, when asked about whether there was cherry-picking of patients with large, one-off prior costs, the executive stated that “we saw exactly that.” Per our conversation, HCSC is currently expecting that upon the program's completion, Catasys will be responsible for refunding it in connection with its underperformance. Since November 2018, we have found no further mentions of HCSC throughout the Company's conference calls, though the logo remains conveniently displayed in the Company's April 2020 investor presentation.

What happened to Anthem?

We have serious concerns as to the timing of the Anthem contract: its signing, launch (if it did happen), and when Anthem decided to drop Catasys. In June 2018, the Company supposedly launched with Anthem in California, as touted on the Q3 and Q4 2018 conference calls, with Peizer stating that:

“In 2018, we announced enrollment launches with three new national health plan partners: Humana, Cigna and Anthem. As of this call, we have contracts with seven of the eight largest health plans...”

That said, when the accompanying investor presentation was published on March 15, 2019, Anthem was conspicuously missing from the listed logos. Nevertheless, mere days later at the Oppenheimer Health Care

Conference on March 20, 2019, Peizer stated once more that “we have signed contracts with seven of the eight largest health plans in the country. All the biggest bluish chip companies that you know of from the Humana's, Anthem's, Aetna's, Cigna's et al...” Today however, we fail to see Anthem mentioned as a customer in the Company's investor presentation, and Anthem has not been mentioned since the Company's Q4 2018 conference call over 18 months ago. We also spoke with former employees who confirmed that Anthem dropped Catasys, but were unable to provide specific timing or rationale.

... and Optima Health?

We also have the case of Optima Health, which the Company [revealed](#) in a press release on April 23, 2019. On the earnings call in August, the Company then confirmed that Optima had launched in July 2019. However, we again see that the logo is now missing from the April 2020 investor presentation, and the Company has not discussed Optima in any conference calls since that same call.

... And 4 other previously touted plans that apparently do not offer Catasys programs

We also reached out to Network Health and MHS Health Wisconsin – logos once proudly displayed by Catasys – and in each case, company representatives could not locate any record of OnTrak being offered to their members. Catasys has [also touted](#) Reliant Medical Group ([acquired](#) by Optum on April 1, 2018), yet we find no indication that Reliant is still offering Catasys to its members. Finally, we have Fallon Health, which explicitly noted that it [ended its partnership](#) with Catasys at year-end 2016.

We believe that insurers have and will continue to recognize that Catasys is simply a bogus offering and will balk. As the Company's top 4 customers now generate 85% of revenues, were a single customer to drop Catasys, we believe it would be catastrophic to the Company's already hamstrung business. Given historical precedent, our view is that this is a matter of when, not if.

All that said, we remain concerned that even after having followed Catasys and researched the business intensively over the past several months, we are unable to make use of the Company's vague disclosures as to who the Company's customers actually are. To that end, we suggest the Company answer the following questions:

- (1) Who are the Company's top 4 customers that generated 85% of revenues in 2019, and what percentage of revenues did each customer generate?
- (2) Of the Company's 6,996 members as of year-end, how many members were enrolled with each of the Company's top 4 insurance customers?
- (3) As discussed below, we understand the Company earns no PMPM fees from Aetna, an apparent departure from the way Catasys describes its business. What percent of members are not paid for on a PMPM basis?
- (4) How many of the Company's current contracts contain financial guarantees to insurers, and how is the Company accounting for such guarantees?
- (5) Which of the Company's insurance customers are currently in the pilot evaluation phase with Catasys, and which have moved past the pilot phase to offer the Catasys solution to a broader member base?

- (6) Has the Company ever collected revenues from UnitedHealth? If so, (a) over what time period? And (b) were any of these revenues ever ceded back to UnitedHealth in connection with financial guarantees?
- (7) Has the Company ever collected revenues from Anthem? If so, (a) over what time period? And (b) were any of these revenues ever ceded back to Anthem in connection with financial guarantees?

We believe Catasys ought to be recognizing contingent liabilities for insurer guarantees

In light of the Company's adoption of ASC 606, Catasys recognizes member enrollment revenue on an up-front basis. We are concerned about the Company's deteriorating disclosures regarding revenue reserves, especially in light of performance and retention issues, as we also describe further on. Per the 2017 Form 10-K, the Company did in fact reserve for guarantees:

Revenue Recognition

Our Catasys contracts are generally designed to provide cash fees to us on a monthly basis or an upfront case rate 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 or other fees in advance that are not subject to performance guarantees, we recognize the case rate ratably over the twelve months of our program. We recognize any fees from sharing in the savings generated from enrolled members when we receive payment.

However, 2018 disclosures in the form 10-K removed all references to "reserves", which we believe allowed the Company to recognize greater revenues per member on an up-front basis, while failing to disclose contingent liabilities. In the Q1 2019 conference call, management claimed guarantees "on most of these contracts is against 20% of our fee":

"Let me just get to the fact that the guarantee on most of these contracts is against 20% of our fee, which is \$1,300 per enrolled member, roughly, which obviously, if it were to ever come about, that would eat into our profitability, but it wouldn't be that significant of an event."

However, an executive with knowledge of the contract stipulated that Catasys made a 200% guarantee to HCSC, 10x that described by Peizer above. Further, given that by our calculation Catasys already lost \$4,281 in operating income per average member enrolled in 2019, we find it perplexing to claim that \$1,300 out of the net \$6,500 per enrolled member is not "that significant." We are concerned that Catasys will be left on the hook for significant contingent liabilities arising from dis-enrollments, which we believe are far higher than the 20% claimed by the Company, as we detail further below.

Catasys is a telemarketing company, not a technology or telehealth company

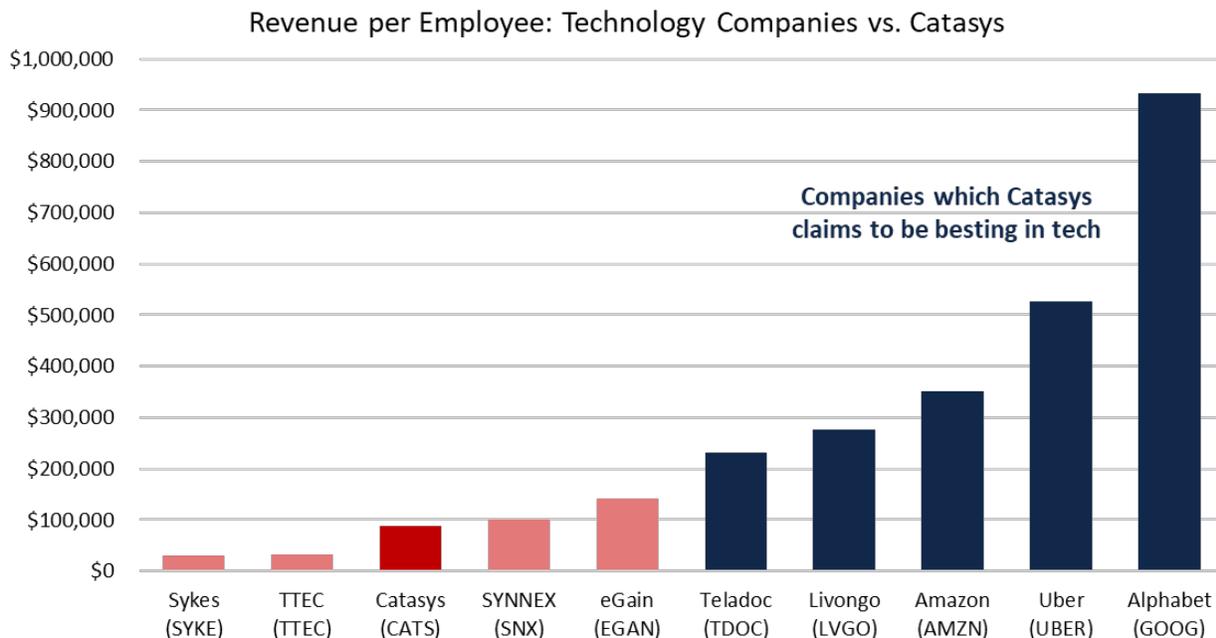
In the Company's March 12, 2020 [press release](#) announcing its Q4 2019 results, it referred to itself as "a leading AI-powered and telehealth-enabled, virtualized outpatient healthcare treatment company." While these descriptions may win buzzword bingo, we find them entirely unreflective of the Company's actual business. We note that as soon as COVID-19 emerged, Catasys inserted telehealth language to its investor-facing business description, in what to us is a clear sign that the Company hopes to benefit from COVID-19-related promotion. Notwithstanding the COVID-19 induced change in business description, we believe Catasys isn't even worthy of calling itself a technology company. Nevertheless, Catasys takes every opportunity to frame itself as such. See again from the March 12, 2020 call, which mentioned:

“constantly improving technologies ... we strive to improve the functionality of our technologies”
 “Catasys continued to validate the effectiveness and efficiency of its technologies and methodology.”
 “Throughout 2019, we committed ourselves to investing in new technology...”
 “Leveraging our data and analytics...”
 “Our data science team is implementing new machine learning algorithms...”
 “the most advanced analytics platform in the industry.”
 “We have a virtual, scalable, reputable [sic] through the country...”

Peizer touts a high-tech narrative by [claiming](#) that “we’re part Amazon and we’re part Uber” and on the most recent Q4 2019 conference call suggested that Catasys ought to trade at a higher valuation than Livongo (LGVO). Peizer even went so far as to claim that “can Google do, for example, what we do? The answer is categorically no.” Despite these claims, which view as blatantly ludicrous, we recognize that compared to actual technology companies, Catasys’s financials better mirror those of a low-tech call center operation. In 2019, despite its claims to be “investing in new technology,” the Company had zero purchases of PP&E or capitalized software, while its R&D expenses do not rise to the level of explicit disclosure in the financials. Compare to Teladoc, Inc, (TDOC), which in 2019 [spent](#) \$64.6 million technology and development expenses, \$3.5 million in purchases PP&E, and \$7.4 million in internal-use software:

\$ in millions	Teladoc (TDOC)	Catasys (CATS)
Tech & development expenses	64.6	Undisclosed
Purchases of PP&E	3.5	0
Internal use software	7.4	0

A comparison of the Company’s revenue generation per employee tells the same story¹:



Finally, the Company’s own annual report makes no disclosures of IP relevant to its business; its only mention of the word “patents” refers to the risk that the Company itself infringes on the patents of others; Catasys apparently

¹ Amazon \$280.5B revenues vs. 798,000 employees (partial part-time/seasonal). Uber \$14B adj. revs (their cut of total)..

has no IP that is worthy of disclosure. The Company's 2019 annual commentary suggests that its primary increase in expenses owed to "investing in new technology," yet we believe these costs are tied to the mass hiring of additional labor; the engagement team rose from 122 members to 257 in 2019 alone. Peizer also appears to make false implications regarding the data Catasys receives from insurers, such as that the Company has access to 60% of the U.S. population:

"I could take seven health plans, 60% of U.S. population. I can take their claims data, create as many products as I want on a pooled basis and sell all those products back to the industry."

Such an assertion is not true. Rather, Catasys only receives a narrow set of selected claims data pertaining to pre-selected members in the states where the Company has signed agreements. Contrary to what Peizer would like investors to believe, Catasys has never been handed the keys to a new Porsche 911; it was merely told that it is welcome to ride its tricycle around the driveway. Peizer has also seemed to imply that this data not only allows the Company to help patients via OnTrak, but make clinical diagnoses on insurance company populations:

"So, we use our big data analytics, predictive modeling and artificial intelligence to determine who has depression, anxiety and substance use disorder, but also companion with that chronic disease."

We view this implication as farcical. Similarly, we understand that Catasys advances its nurse Care Coach platform in both its pitches to insurers and potential members. The Company's materials claim to provide "medical evaluation" and "pharmacological intervention." However, as many state licensing laws prevent nurses from operating in a medical capacity across state lines, we believe this claim is misleading. Per one former Care Coach we spoke with: "They are nurses, but they are not practicing. They're occupational coaches." Per an additional Care Coach:

"To get around the legal part of it, we had to be careful what we discussed over the phone. They call it a coaching position on improving their behavioral health ... I've been a nurse a while but we couldn't help. I couldn't educate her on blood glucose levels. That's just a normal nurse intuition."

As such, we understand the role of Care Coaches has been relegated from actual nursing to rote member enrollment and retention tasks. Per one former Care Coach we spoke with, "The outreach team was doing the majority [of enrollment] at the start, but by the time I left [in Fall 2018], I was spending 80% of the time trying to persuade people to enroll into the program." Per an additional care coach:

"My caseload was anywhere in the 50s but I had multiple roles, I did referrals too ... By the second or third year it went from 70 to 85 or 90 at my highest, then they changed the cutoff. How am I going to impact people if I keep getting stuffed members? ... It's more about money. It's not about saving their lives."

Catasys describes itself as possessing "a unique ability to engage these members, who do not otherwise seek behavioral healthcare, leveraging proprietary enrollment capabilities built on deep insights into the drivers of care avoidance matched with data driven engagement technologies." However, our conversations as well as reviews provided on career websites portray Catasys as disingenuously promoting its program through telemarketing:

Role, Date	Commentary
RN Care Coach, March 10, 2020	Be aware that you can trust no one. If you can play fake and go along with deceiving people to get them to sign up for there [sic] program and take their money , you'll be a great fit.

Care Coach, December 18, 2019	We are not providing health care I have been a nurse over 10 years this is not health care let alone mental health.
Care Coach, August 22, 2019	They force you to enroll members without the members even interested. It's a bad culture.

Employees also describe being issued near-impossible enrollment quotas, leaving the care of this vulnerable population by the wayside:

Role, Date	Commentary
Outreach Specialist, July 12, 2019	Basically, it is a telemarketing job. My one concern is that you have to call members over and over again after they have declined the services ... It is not good business practices to harass the sick, elderly, or anyone really.
Member Services, December 5, 2019	You are literally paid \$17.50 an hour no negotiating this pay to be a dial monkey calling hundreds and hundreds of numbers a day and if you dont hit the requirements they will fire you without warning! ... What makes this tough is out of the hundreds and hundreds of calls I am not kidding when I say 97% are VM's and No Answers where nobody answers. You talk to a handful of people a day everyday and most will say they are not interested or to stop calling!
Member Engagement Specialist, November 12, 2019	they say the quota is 125 calls per day and 5 transfers. There are many days where no one answers, and the quota is being pushed to 200 calls per day so literally every minute of every day on the job will consist of talking to someone potentially ... Also, you are selling members a dream, half of the time they won't be able to get half of the things promised to them. Having each member not remain enrolled ...
Member Engagement Specialist, August 22, 2019	This is a job based on commission and sales ability to enroll, not the typical medical / mental health position. The focus is to make as many calls as possible to a individual that may be eligible, repetitively call and harass the individual to enroll.
Care Coach, August 13, 2018	... very poor management. Specially on the Care Coach teams. Big turn over rate. Nurses don't stay. Manyyyyy unhappy employees. They treat nurses as salespeople/telemarketers. They hire nurses but don't let them utilize their skills.... No incentives!!!! Very poor company vision overall.

Catasys continually falls well short of supposed “conservative” expectations

Integral to the Catasys promotion are the Company's numerous claims to revenue growth and profitability. For example, at the March 2019 Roth Conference, Peizer stated that “if we're addressing 33% to 35% to perhaps 40% of the total medical spend in the country, our addressable market is \$33.7 billion.” However, while Peizer is tossing out these, in our view, utterly ridiculous claims, the Company has fallen well short of its own supposedly “conservative” expectations. See the Company's historical claims vs. actual outcomes below:

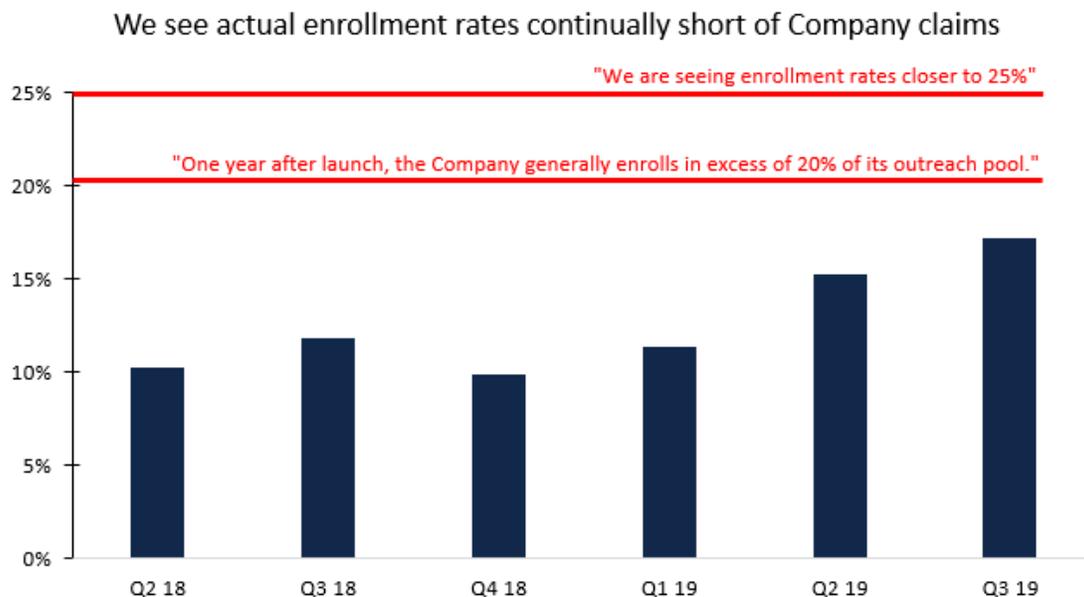
Claim	Outcome
<p>July 2014 presentation</p> <p>“At 5 million lives that would equate to \$45 million in revenue and \$18 million in pre-tax earnings ... We could end the year at 5 million [lives] maybe its 10 million” implying run-rate revenues \$45 to \$90 million.</p>	<p>In 2015, Catasys generated just \$2.7 million in revenues and negative \$8.9 million in operating income.</p>
<p>Q1 2017 conference call</p> <p>“Our own internal numbers that we regard as conservative ... For 2019, we see revenue of \$137 million ... SG&A is expected to be approximately \$9.5 million in 2017, which is expected to grow 20% a year”, implying 2019 operating income of \$35 million at flat GMs.</p>	<p>In 2019, Catasys generated just \$35 million in revenues (74% lower than claimed) and negative \$21 million in operating income.</p>
<p>March 2018 interview</p> <p>“Because it’s a launch and a ramp, people will see hundreds of millions of free cash flow over the next 1 to 2 years.”</p>	<p>Catasys burned \$8.6 million of cash in 2018, \$16.9 million in 2019, and has an accumulated deficit of \$331 million.</p>
<p>Q4 2018 conference call (March 14, 2019)</p> <p>“we were pleased to announce an expansion of our debt financing prior to the opening of the stock market this morning ... At the current levels of investment, we believe this financing will enable us to generate free cash flow after funding internal growth and put us, pun intended, on track towards profitability ... we have about 50% EBITDA contribution margin at scale. We'll get to scale shortly.</p>	<p>Despite issuing debt at a 10.24% effective interest rate in March 2019, the Company continued to burn cash and issued additional debt in September 2019 at an even more punitive rate.</p>
<p>Q4 2019 conference call (March 12, 2020)</p> <p>“our metrics are going to keep improving, which is going to improve both our revenues and our profitability. And I’m excited that next year we’ll be talking about profitability ... do we have enough cash to get to cash flow positive state or cash flow breakeven, cash flow positive? The short answer is yes. Part 2, when will we become cash flow breakeven? Our model says fourth quarter. My brain says, let's say, first quarter.”</p>	<p>TO BE DETERMINED:</p> <p>Given precedent, we have substantial doubt that Catasys will fulfill these claims.</p>

Contrary to the narrative of a scalable, high-tech business, we believe that Catasys is a structurally unprofitable call center operation that will only continue to incinerate greater sums of shareholder capital over time. Moreover, while Peizer claims that the Company’s metrics are improving, we believe that the Company has engaged in a systematic campaign to obscure the brutal economic realities of its business.

Claimed outreach pool enrollment rates of 20% appear overstated

Catasys has historically claimed that it generally enrolls in excess of 20% of its outreach pool 12 months after launch, while additional outreach pool members continue to enroll after 12 months. In Q1 2017, Peizer even claimed that “we are seeing signs that our 12 months ramps are shortening, where we use a 20% enrollment rate in our model, we are seeing enrollment rates closer to 25%...”

However, the Company’s own disclosures show both that (1) it has in fact never reached a 20% enrollment rate, let alone 25%, while (2) the Company admits its enrollment rate is deteriorating. Note that the Company’s supposed outreach pool in Q3 2017 was 25,266 members, at least 5,053 enrollees at quarter-end Q3 2018. **However, the Company’s enrolled members in Q3 2018 totaled just 2,598, or 49% lower than what investors ought to have expected.** Even in Q4 2019, Catasys still fell short of the enrolled members it ought to have had, were the enrollment rate truly 20%. We have similarly rolled forward these figures to the present. As shown, the Company has consistently reported consistently worse figures than implied by the 20% rate touted:



Then in Q3 2019, the Company walked back the claim that it “generally enrolls in excess of 20%” to claim that this was only a discussion “at scale”:

“While the Company has **historically discussed a 20% enrollment rate at scale**, some populations enroll at a higher rate and others at a lower rate depending on customer product and disease mix. As Catasys dramatically grows its engagement team, the time to optimal enrollment efficiency also increases.”

Management’s retroactive implication that these enrollment rates were only theoretical appear to us a blatant admission that they had been lying throughout numerous prior calls.

Dubious claims to 80% member retention rates

Given the [numerous complaints](#) alleging members are “harassed” and “forced” into the program, as well as a Care Coach base focused on enrolling new members rather than caring for existing members, we are not surprised that the Company appears to be downplaying member retention issues. The numerous Care Coaches we spoke with confirmed that the Company considers a member enrolled in the OnTrak program so long as the Company has made contact with that member within the past 90 days. Per one former Care Coach:

“If we couldn’t get ahold of them at all in 3 months, that’s when they were disenrolled. But we were encouraged to do whatever we could... **Even if they responded back one time even texted and said, ‘I’m busy’, that counts as contact** ... I’d go to my supervisor and say can ‘we just disenroll them?’, and they say no. I’d say this is ridiculous...”

In effect, given that each Care Coach is responsible for upwards of 100 members, while the Company has also directed its Care Coaches to focus on enrollment and cost gaming rather than member care, members fall through the cracks even as Catasys continues to collect revenues for their supposed “progress” through the program. For this reason, we are concerned that even of those who technically “complete” the program, that there is little to no demonstrated impact from OnTrak. The same Care Coach we spoke with above characterized their members as three groups: the first 25% of members were engaged and showed real progress through the course of the program. Another 50% of members would technically complete the program as they remained “enrolled” through 12 months, yet obtained little to no value. The remaining 25% of members signed up, but disenrolled from the program in a short period of time. Per a former executive of the Company:

“Some people churned out in a month. Someone says to them ‘Hey, this is a free program’, so they enroll, but then they never make contact again ... There were always challenges with churn, and who should be counted and who shouldn’t be counted.”

4 additional former employees that we spoke with estimated program completion rates anywhere from just 30% to 60%, in stark contrast to the Company’s touted 80% rate. One Glassdoor [review dated March 2020](#) even claims that **“70% of the members won’t stay in the program past 3 months.”**

Our concerns are validated by the Company itself, which in 2018 removed the claim that “to date, approximately 80% of members who have remained eligible have been retained in the program” from its 2017 form 10-K:

Clinical and financial outcomes from the OnTrak solution have shown that OnTrak enrolled members achieve an average gross cost reduction of more than 54% for the year after enrollment compared to the 12 months prior to enrollment. In addition **to date, approximately 80% of members who have remained eligible have been retained** in the program.

And 2018 form 10-K:

member. We provide outcomes reporting to payors on a periodic basis to demonstrate the value of the program. Enrolled members achieve an average gross cost reduction of approximately 54% for the year after enrollment compared to the 12 months prior to enrollment.

The Company also chose not to disclose a retention rate in its 2019 annual report, which, in our view, is reflective of management’s unwillingness to be honest with investors regarding the underlying deterioration in its business.

We see problems even at Aetna, which we believe is Catasys’s largest account

At Aetna, we believe that Catasys has brokered a deal that is much worse than the model it pitches to investors. Rather than billing Aetna on a Per Member Per Month (PMPM) basis, we understand that Catasys merely bills as

a service provider for individual services provided in large part by its provider network. Our understanding is that Catasys then simply relays payments to its own provider network, a distinct departure from the year-long partnership model that the Company touts. We also spoke with a former executive with knowledge of the Aetna contract who stated Aetna only observed 1.5 to 1 returns through Catasys, multiples below the 5 to 1 returns the Company trumpets. Since Catasys appears to be effectively a pass-through entity for Aetna, we believe it receives even poorer economics than on its PMPM business. However, the structure does allow the Company to show revenue growth, even as the ultimate economic benefits to Catasys remain highly questionable, in our view.

The Company's "Proprietary provider network" raises further questions

We also express concerns regarding the Company's "proprietary" provider network. As Catasys Care Coaches do not provide much in the way of medical services, they often refer members to doctors – mainly psychiatrists or general care doctors, which are covered by Catasys. In the words of Peizer: "so the doctor and psychologist are not our employees, we pay them out of the money we get. Out of the \$6,500 net we get from the health plan, we pay the providers directly." As such, we are concerned by the Company's relationship with its networks in Texas and California, where providers operate through "Texas Integrated Health, Inc." and "California Integrated Health, PC." See the following from Catasys's provider network [webpage](#):

California and Texas Providers

If you are a **California** provider and want to join the OnTrak network please [click here](#).

If you are a **Texas** provider and want to join the OnTrak network please [click here](#).

When we proceed through the links, we are directed to TIH and CIH:



The 10-K discloses that Catasys formed agreements with TIH and CIH in April 2018 and July 2018, respectively:

As discussed under the heading Management Services Agreement ("MSA") below, the Company has an MSA with a Texas nonprofit health organization ("TIH") and a California Professional Corporation ("CIH") ... In April 2018, the Company executed an MSA with TIH and in July 2018, the Company executed an MSA with CIH. Under the MSA's, the Company licenses to TIH and CIH the right to use its proprietary treatment programs and related trademarks and provide all required day-to-day business management services ...

While these entities are consolidated VIEs, the timing of formation and Catasys's commercial agreements is concerning, as **both Catasys and its insiders are listed on these entities' initial formation documents several months before the deals were struck.** We also remain perplexed as to how TIH claims non-profit status given the relationship with Catasys. See from Texas Integrated Health's May 2015 formation documents:

Form 202 Secretary of State P.O. Box 13697 Austin, TX 78711-3697 FAX: 512/463-5709 Filing Fee: \$25	 Certificate of Formation Nonprofit Corporation	Filed in the Office of the Secretary of State of Texas Filing #: 80222176 05/26/2015 Document #: 608424840002 Image Generated Electronically for Web Filing
Article 1 - Corporate Name		
The filing entity formed is a nonprofit corporation. The name of the entity is :		
<u>Texas Integrated Health, Inc.</u>		

Despite Catasys having formed an MSA with Texas Integrated Health in April 2018, Catasys is listed in the initial formation documents as the sole member:

Supplement to Article Four - Organizational Structure:

The Corporation shall have one (1) member (the "Member") the name and address of the Member is as follows **Catasys, Inc.** 11601 Wilshire Blvd. Suite 950, Los Angeles, CA 90025. The Member may designate additional or successor Member(s).

Atique Khan, Umar Latif, and Carlos Tirado are each also listed as Directors, each of whom list an address at Catasys corporate headquarters:

Director 1: Atique Khan	Title: Director
Address: 11601 Wilshire Blvd. Suite 950 Los Angeles ca, USA 90025	
Director 2: Umar Latif	Title: Director
Address: 11601 Wilshire Blvd. Suite 950 Los Angeles ca, USA 90025	
Director 3: Carlos Tirado	Title: Director
Address: 11601 Wilshire Blvd. Suite 950 Los Angeles ca, USA 90025	

Similarly, we find that California Integrated Health was formed as a professional corporation in December 2017, while its original formation document also lists Catasys corporate headquarters as its business address:

4089968



Secretary of State
Articles of Incorporation of a Professional Corporation

ARTS-PC

FILED *aw*
Secretary of State
State of California *SH*
DEC 15 2017

IMPORTANT — Read instructions before completing this form.
Filing Fee — \$100.00
Copy Fees — First page \$1.00; each attachment page \$0.50;
 Certification Fee - \$5.00
Note: Corporations may have to pay a minimum \$800 tax to the California Franchise Tax Board each year. For more information, go to <https://www.ftb.ca.gov>.

1cc
This Space For Office Use Only

1. Corporate Name (Contact the California state board or agency that controls your profession to find out if your profession is authorized to be a corporation in California and if there are any specific corporate name style rules. Go to www.sos.ca.gov/business/be/name-availability for general corporate name requirements and restrictions.)

The name of the corporation is California Integrated Health, P.C.

2. Business Addresses (Enter the complete business addresses. Item 2a cannot be a P.O.Box or "in care of" an individual or entity.)

a. Initial Street Address of Corporation. Do not enter a P.O. Box.	City (no abbreviations)	State	Zip Code
<u>11601 Wilshire Boulevard, Suite 1100</u>	Los Angeles	CA	90025
b. Initial Mailing Address of Corporation, if different than Item 2a	City (no abbreviations)	State	Zip Code

California Integrated Health’s 2019 annual report also lists Tanya Ozkan, who joined Catasys in 2017 as Customer Experience Officer, and Susan Etzel, Catasys’s Senior Vice President of Finance. 2120 Colorado Ave again [directs](#) to a Catasys corporate offices:

Names and Complete Addresses of the Following Officers (The corporation must list these three officers. A comparable title for the specific officer may be added; however, the preprinted titles on this form must not be altered.)				
7. CHIEF EXECUTIVE OFFICER/	ADDRESS	CITY	STATE	ZIP CODE
CHRISTOPHER WOOD	<u>2120 COLORADO AVE., SUITE 230, SANTA MONICA, CA 90404</u>			
8. SECRETARY	ADDRESS	CITY	STATE	ZIP CODE
TANYA OZKAN	2120 COLORADO AVE., SUITE 230, SANTA MONICA, CA 90404			
9. CHIEF FINANCIAL OFFICER/	ADDRESS	CITY	STATE	ZIP CODE
SUSAN ETZEL	2120 COLORADO AVE., SUITE 230, SANTA MONICA, CA 90404			

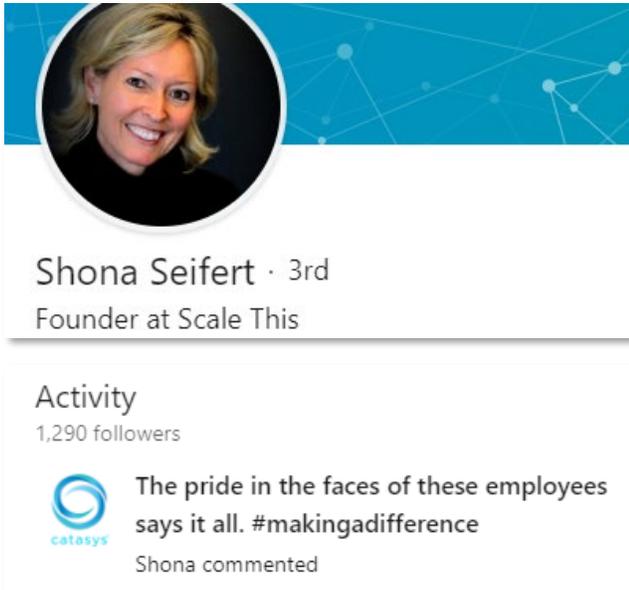
As Catasys admits that it pays its provider network directly from the money it collects from insurers, we remain concerned that these structures harbor potential for abuse.

Additional red flags: CFO, board member resignations, auditor change, felon consultant

Our skeptical view of the Company’s management, business practices, and financials is further amplified by the Company’s recent auditor change. From 2009 through the 2017, Rose, Snyder & Jacobs LLP audited Catasys, but in 2018, the Company switched to EisnerAmper, LLP. Neither one of these firms are “Big 4” auditors, and auditor changes are often signposts of irregularities and/or disagreements on management’s preparation of the financials.

Moreover, the Company’s former CFO, Christopher Shirley resigned in March 2020. Prior to Shirley, Susan Etzel was CFO, yet she resigned in May 2017 and now chooses to serve as the Company’s Vice President of Finance – a role which doesn’t require her to sign off on the Company’s financial statements. Longtime COO Rick Anderson also left in December 2019, and long-time CMO Omar Manejwala left in March 2020. We find it telling that these executives, even those who have been with Peizer/Catasys for years, are now abandoning ship. We were also

concerned by a woman named Shona Seifert, who we learned is well known around Catasys headquarters as an advisor to the Company and “has Peizer’s ear.” That said, Catasys wants no official affiliation with her, owing to her prior 18-month prison stint for overbilling the federal government:



Shona Seifert · 3rd
 Founder at Scale This

Activity
 1,290 followers

 The pride in the faces of these employees says it all. #makingadifference
 Shona commented

SHONA SEIFERT SENTENCED TO 18 MONTHS IN PRISON

Must Also Pay \$125,000 Fine in White House Drug Office Fraud Case

By [Matthew Creamer and mcreamercrain.com](#), Published on July 14, 2005.



NEW YORK (AdAge.com) -- A federal judge today sentenced Shona Seifert to 18 months in prison and ordered her to pay a \$125,000 fine for her role in the [Ogilvy & Mather](#) scheme to overbill the government on its national anti-drug ad account. The judge also ordered her to develop a written code of conduct for the advertising industry.

Catasys employs numerous paid promoters

Promoting Catasys stock are RedChip, Tailwinds Research, and Taglich Brothers. RedChip disclosures state that: “Catasys (CATS) is a client of RedChip Companies, Inc. **CATS agreed to pay RedChip Companies, Inc. a monthly cash fee for 12 months of investor awareness services** designed to help small-cap companies communicate their investment characteristics.” Next we have Tailwinds Research, which has also [promoted](#) Harrow Health (HROW). We wrote about HROW in August 2019, and shares remain 38% lower than at that time. Catasys also employs Taglich Brothers, which has had a laundry list of [regulatory events](#) with FINRA, including: improper AML compliance program, improper disclosures on research reports, sending the covered firm research prior to publication, failure to enforce procedures for annual reviews, failure to disclose payment for research, failure to keep records of order tickets, and conducting business in states where it was not licensed to do so. Finally, we also find it concerning that the Company’s own employees are apparently soliciting LinkedIn [connections](#) to invest:

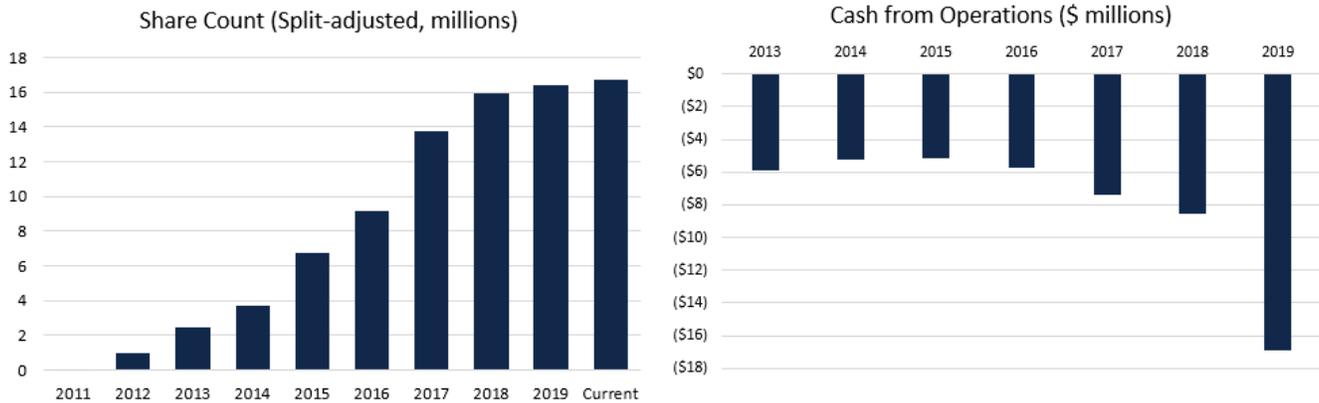


Senior Vice President, New Business Development at Catasys
 bh

Learn how to invest in \$CATS

We believe Catasys shares are worthless

In our view, Catasys is a cash-burning call center business whose customers are wising up to the myriad ways in which it constantly mis-portrays its business. To keep the Company afloat amid this cash burn, it has chosen to dilute investors at an astounding rate:



That said, in September 2019, the Company [took on](#) an additional \$35 million in debt. Investors and management alike have seemingly taken every opportunity to tout this “Debt Financing Commitment from Goldman Sachs” as if it were provided as a bank loan. **Instead, we find that Catasys took on debt from the special situations group within the bank, which was acting as a distressed lender. This is reflected in the punitive 15.75% effective interest rate that the Company paid in 2019, in addition to the warrants the company awarded the lender.** Thus, while investors viewed this as a “win”, we believe the move was a desperate one in light of the Company’s cash burn and structurally broken business model. We believe that as investors are more fully informed of the risks in the Company’s management team, business model, cash burn, and valuation, shares will be found worthless.

Appendix: Terren Peizer’s history of stock promotions and criminal associates

If one is known by the company he keeps, Terren Peizer isn’t doing himself many favors. Peizer’s career began under Michael Milken, and he [testified](#) against his former boss in exchange for immunity from prosecution. Peizer’s involvement in a [1990’s Ponzi scheme](#) raises further questions during his time with Milken, as “According to the allegations, two of those transactions involved Terren S. Peizer, a former Drexel Burnham Lambert executive. The lawsuit asserts that Mr. Peizer helped Mr. Hall sell to the joint venture one block of totally worthless securities for \$5 million and a second block of almost worthless securities for another \$5 million.”

Even if Peizer was truly uninvolved in selling “totally worthless securities”, he went on to establish Socius Capital Group LLC (also known as Crede Capital Group) alongside [Michael Wachs](#) and Richard Josephberg. Michael Wachs [holds a lifetime ban](#) from the Federal Reserve Board for alleged fraud, then pled guilty to bank fraud. Separately, Wachs was [barred from association](#) with any NASD member after misappropriating \$20.8 million. Josephberg’s history is not any cleaner. In 2007, he was sentenced to [50 months in prison](#) and 3 years on supervised release for 29 years of tax evasion, after it was believed that he hid over \$20 million from the IRS and previously helped found a firm which “cost the government hundreds of millions of dollars.” Josephberg was then caught by the DOJ again [in March 2019](#) for criminal conduct while operating an investor relations firm. Socius renamed Crede Capital Group, which Peizer runs in addition to Acuitas Group Holdings, LLC, Peizer’s “personal investment vehicle.” In each of the below businesses, Peizer raised capital for, and often invested his own capital, each of the below

businesses. While he may have made out, minority shareholders did not. Prices are shown on a split-adjusted basis, when applicable:

Company Name	Ticker	Appx High	Current Price	Current vs. Highs
Dutch Gold Resources Inc	DGRI	\$3.0	\$0.00	-100.0%
Marketing Worldwide Corp	MWWC	NM	\$0.00	-100.0%
ZBB Energy Corp	ZBB	\$29	\$0.00	-100.0%
International Stem Cell Corp	ISCO	\$360	\$0.46	-99.9%
Pacific Ethanol Inc	PEIX	\$225	\$0.36	-99.8%
Musclepharm Corp	MSLP	\$1,003	\$0.22	-100.0%
VeriChip Corp	PSID	\$3B	\$0.00	-100.0%
Bergio International Inc	BRGO	\$8,304	\$0.00	-100.0%
New Generation Biofuels Holdings Inc	NGBF	NM	\$0.00	-100.0%
Cell Therapeutics Inc	CTIC	\$127	\$1.04	-99.2%
Zoom Technologies Inc	ZOOM	\$30	\$0.63	-97.9%
DayStar Technologies Inc	DSTI	\$6.9	\$0.00	-100.0%
Northwest Biotherapeutics Inc	NWBO	\$10	\$0.18	-98.2%
ImmunoCellular Therapeutics Ltd	IMUC	\$155	\$0.03	-100.0%
Cogito Media Group Inc	KRMC	\$0.03	\$0.00	-100.0%
Eco Trade Corp	BOPT	\$0.72	\$0.00	-100.0%
Bionovo Inc	BNVI	\$0	\$0.00	-100.0%

Source: SEC filings, public news releases

Peizer also has a history of acquiring significant personal stakes in companies, making grandiose claims about those companies, and leaving public equity holders with the bag. Catasys investors may mistakenly believe that as Peizer owns stock, he is “on their side”, but we believe history suggests differently:

- (1) Peizer was the President at Hollis-Eden Pharmaceuticals, Inc, a reverse merger which suggested that its drug, Immunitin, could cure AIDS. Needless to say, after being pumped for several years, the shares collapsed and the company is now defunct after the drug’s clinical backing was [characterized](#) as “gibberish, gobbledygook.”
- (2) Peizer was also involved in Advanced Promotion Technologies, which, [per Forbes](#), “went bust in 1996 after Peizer pulled out.”
- (3) Peizer was also Chairman and owned a majority stake in Urethane Technologies, Inc., which claimed to have a bicycle tire that wouldn’t go flat. Peizer successfully promoted the stock, then stepped down as chairman and dumped his shares. The company went bankrupt.

The risk that Peizer executes the same playbook at Catasys becomes all the graver when considering his recent extracurriculars. In a March 2018 [interview](#), Peizer admits to being “a hard core gambler,” while he was charged with a DUI while at Catasys. Ironically, the court ordered Peizer to complete 3 years of probation, 1 day in county jail, and a 3-month drug and alcohol program (case number: BH 0BV01249-01).

Criminal Case Summary

Case Number: BH 0BV01249-01
Defendant Name: PEIZER, TERREN SCOTT

PROBATION/MANDATORY SUPERVISION:

SUMMARY PROBATION 36 MONTH(S)

JAIL TERM:

1 DAY(S) IN LOS ANGELES COUNTY JAIL

ALCOHOL PROGRAM:

THE DEFENDANT SHALL ENROLL AND PARTICIPATE IN AND SUCCESSFULLY COMPLETE A 3-MONTH LICENSED FIRST-OFFENDER ALCOHOL AND OTHER DRUG EDUCATION AND COUNSELING PROGRAM.

Peizer also had a restraining order filed against him in 2014, as the accuser evidently felt it necessary for the prevention of domestic violence (DV):

Case Number: SQ006567
VANESSA VIOLET JOHNSTON VS TERREN SCOTT PEIZER

Filing Courthouse: Santa Monica Courthouse

Filing Date: 08/26/2014

Case Type: DV Prevention w/o Minor Children (General Jurisdiction)

Status: Statistical Disposition 10/08/2014