

Catalyst seeks cash injection for fund  
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Newton Glassman's Catalyst Capital Group Inc. is asking its investors for money as the private-equity firm's efforts to sell many of its corporate holdings drag on.

Catalyst issued a capital call this month to backers of a \$1-billion fund, asking investors to send money equal to 5 per cent of their original commitment. In the one-page letter, the firm explained that the majority of the money will go into investments, with about one-fifth of it earmarked for paying expenses. The request came at about the same time Mr. Glassman announced he was taking a medical leave as chief executive of Callidus Capital Corp., a public company that is a significant holding in Catalyst funds.

While capital calls are normal at private funds, some Catalyst investors said they were frustrated to be asked to put more into a fund that is nearly a decade old, a phase when private funds are typically in the mode of cashing out investments and returning money to limited partners. Catalyst manages several billion dollars for clients in four active funds. The oldest of these funds originally pledged to cash in investments and pay out clients by 2016. That deadline was subsequently moved to 2019.

One Catalyst investor, who spoke on condition of anonymity, expressed concern that Mr. Glassman will use the additional money to put more capital into Callidus, a Toronto-listed firm that lends to distressed businesses. Catalyst and its various funds already own about 72 per cent of Callidus, whose share price has tumbled 82 per cent since its initial public offering in 2014, from \$14 to \$2.50, after suffering heavy loan losses.

Some Catalyst unitholders are also concerned about the cost to the funds of a number of protracted court battles, including an ongoing lawsuit that saw Catalyst hire an entity that in turn hired private investigators from Black Cube, an agency founded by former spies from the Israeli intelligence service.

Most investors in Catalyst funds are pension plans and endowments, including retirement funds for employees at the University of Toronto and McGill University. Several U.S. university and public employee pension plans are also among the investors. The call for cash means an investor who made an initial commitment to Catalyst of \$50-million, a typical pension plan investment, must now contribute \$2.5-million. It does not mean that the investor has already given the full \$50-million pledge to Catalyst, and the potential for cash calls was spelled out in agreements signed when the fund was launched.

Catalyst is involved in a number of legal fights, many of which have dragged on for years. This summer, the company hired lawyer Rocco DiPucchio from litigation boutique Lax O'Sullivan Lisus Gottlieb LLP. The Toronto law firm dropped Catalyst as a client last year after Catalyst was involved in the hiring of Black Cube to do work that included a sting operation that targeted a retired Ontario judge, Frank Newbould, who made a court decision unfavourable to Mr. Glassman and Catalyst. Court documents show Black Cube was hired in September, 2017. Black Cube declined to comment.

In an August letter to investors, Mr. Glassman said he was bringing Mr. DiPucchio on board as a managing director and that his "first task" is to help bring Catalyst litigation to a "timely conclusion."

Catalyst's request for cash comes after Mr. Glassman repeatedly assured investors that his funds are close to selling businesses such as Therapure Biopharma Inc., in which Catalyst has been an investor since 2005, and Gateway Casinos & Entertainment Inc., acquired in 2012. In his recent letter to investors, Mr. Glassman said all of Catalyst's investments are performing well, except for Natural Markets Restaurants Corp., and Catalyst is in the process of monetizing every holding other than Natural Markets and Frontera Energy Corp., a public company that is 31 per cent owned by Catalyst. Catalyst spokesman Dan Gagnier declined to comment on the capital call and the company's investments.

Sales processes for two Catalyst companies, Gateway and Therapure, have been under way for a number of months after earlier attempts to take them public were put on hold. In his most recent letter, Mr. Glassman told Catalyst's investors that the extra time it has taken to strike deals has actually made the assets more valuable.

However, not all of Catalyst's holdings have performed well amid protracted sales efforts, and questions have persisted over the firm's ability to turn its holdings into cash in the time frame and at the valuations that Mr. Glassman and his investors would like.

Callidus is one example. It has been nearly two years since Catalyst announced plans to seek out third parties to buy the company or help take it private. At one point, Catalyst brandished a valuation from National Bank Financial that gave a target price for the takeover of \$18 to \$22 a share. But no buyer has ever materialized.

Not only does Catalyst own most of Callidus's shares, it is also a major lender to the company. Catalyst's loans include a US\$250-million bridge loan that Callidus was originally scheduled to repay in 2017, but has been extended three times and now comes due in 2019.

Catalyst funds have been putting cash into Callidus under an agreement that sees the former guarantee some bad loans made by the latter. So far this year, Catalyst investors have put \$37.3-million into Callidus under this guarantee. Last year, Catalyst transferred \$23.9-million. As of the end of 2017, Callidus had \$112-million of loans that were guaranteed.

Callidus, in its second-quarter results released earlier this month, said the privatization efforts remain under way but there were no updates. The company lost \$40.8-million in the most recent quarter, after collecting on Catalyst's loan guarantees, and lost \$171.6-million in 2017.

Mr. Glassman, 54, has had both personal and legal setbacks this year. Last week, he announced he was stepping aside as Callidus's CEO due to severe lower back problems that will require two operations in early fall. In addition, he said he is being tested for other spinal and neurological conditions. Mr. Glassman is retaining his positions as executive chairman and director at Callidus, and managing partner of Catalyst.

Mr. Glassman has had trouble on the legal front as well – most recently in April, when an Ontario judge tossed out a \$1.3-billion lawsuit Catalyst had filed against West Face Capital Inc. The decision was the latest installment in a long-running dispute over West Face's successful acquisition of wireless company Wind Mobile in 2014. In his decision, Justice Glenn Hainey of the Ontario Superior Court ruled that Catalyst engaged in "an abuse of process" by launching the lawsuit.

Catalyst announced in September, 2017, that Therapure had struck a deal to sell part of its business to a Chinese consortium led by 3SBio Inc. for US\$290-million. However, the consortium, which also included China's Citic Private Equity Funds Management Co., disbanded in April before the deal could close.

Catalyst said in June that 3SBio and Therapure were still working to close a deal, but there has yet to be an announcement. Catalyst told investors in a confidential letter last March that it hoped to realize US\$100-million in a U.S. initial public offering for the remaining business of Therapure, known as Evolve Biologics.

Meanwhile, Gateway Casinos has drawn interest from potential buyers, including a U.S. private-equity firm, according to sources. The British Columbia-based company has been successful in being awarded the operation of three regional "bundles" of casinos under the Ontario Lottery and Gaming Corp.

Catalyst has said it is looking realize as much as \$400-million from Gateway and has undertaken a process that has three possible outcomes: sale of the business to a rival gaming company, a private-equity