Subject: FW: WSJ MARKETS ALERT: Buyout Giant Catalyst, Self-Proclaimed 'Goldman Sachs of Canada,' Is Accused of Fraud

Canadian Private-Equity Giant Catalyst Accused of Fraud by Whistleblowers

Authorities looking into complaints that Catalyst inflated value of assets, deceived borrowers

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TORONTO—At least four individuals have filed whistleblower complaints with Canadian securities regulators alleging fraud at a multibillion-dollar investment firm and its publicly traded lending arm, according to people familiar with the matter and documents reviewed by The Wall Street Journal.

Catalyst Capital Group Inc., one of Canada's largest private-equity firms, is accused in the complaints of artificially inflating the value of some of its assets and deceiving borrowers about the terms of loans it made. The complaints have prompted officials at the Ontario Securities Commission, the country's leading securities regulator, to make inquiries and question people familiar with Catalyst, according to the people and documents.

A unit of the Toronto Police Service that specializes in financial crimes has separately begun its own inquiries, a department spokeswoman said.

The inquiries don't necessarily lead to an investigation.

Catalyst is led by Newton "Newt" Glassman, 53 years old, who has described his businesses as the " Goldman Sachs of Canada."

His private-equity firm, which oversees 6 billion Canadian dollars ($4.8 billion) for international clients, is one of the country's more aggressive investors, industry executives say. Catalyst mostly invests in high-interest loans to financially distressed firms such as casino game makers or biopharmaceutical companies, and sometimes takes control of the businesses if the loans aren't paid.

Company officials wouldn't comment for this article.

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Under a program begun last year, Ontario regulators accept whistleblower submissions from any individual with original information about an alleged violation of securities law. Regulators dismiss many complaints without any inquiries, according to people familiar with the process. Those reports that merit a review are sent to the program's inquiries team, which conducts interviews and other research before deciding whether to open a formal investigation, the people said.

Some but not all of the filers of the Catalyst whistleblower complaints have worked at companies that borrowed money from Mr. Glassman's firms, and later had their businesses seized, said people familiar with the matter. Some are involved in litigation with Catalyst, the people said. Some of the complaints involve a series of loans to a small technology distributor, while others focus on other investments and the firm's accounting.

Each of the complainants may receive up to C$5 million under the OSC whistleblower program if their allegations prove true.

Neither Mr. Glassman nor his companies have been accused by authorities of any wrongdoing.

Mr. Glassman is also chief executive of Callidus Capital Corp., a so-called alternative lender listed on the Toronto Stock Exchange. Callidus's lending practices are also a subject of the whistleblower complaints, according to the people and documents.

Catalyst funds own a majority of Callidus's public shares and some senior executives work concurrently at both firms.

Catalyst is ranked among the top fundraisers for investments in distressed debt over the past decade, with more than $4 billion of new money collected, according to researcher Preqin.

Catalyst is considering raising another such fund as soon as this fall, said people familiar with the matter.

Existing investors include the endowments of Harvard University, McGill University and wealthy clients of Morgan Stanley , according to people familiar with the matter.

A trained lawyer, Mr. Glassman founded Catalyst in 2002 after working at private-equity giant Cerberus Capital. He earned a reputation for lending when others wouldn't, such as to companies on the brink of bankruptcy, a strategy that consistently led to double-digit annual returns.

Catalyst this spring was awarded "Global Private Equity Turnaround Firm Of The Year" from the Global M&A Network, a trade group, for recent investments in companies like troubled film studio Relativity Media LLC.

Well-known in Canadian business circles, Mr. Glassman is protective of his own privacy. He has at times forbidden friends and journalists from taking his photograph.

His companies sometimes file multiple lawsuits against borrowers believed to have violated the terms of their loans.

One of those borrowers is Jeff McFarlane.

Mr. McFarlane is the former chief executive of computer distributor Xchange Technology Group, known as XTG. He said his company began borrowing from Callidus in late 2012 after the lender purchased its $11.6 million loan from a U.S. bank.

Within a year, Xchange was in insolvency proceedings. Callidus purchased the company for about $34 million, according to court documents.

When Callidus went public in 2014, Catalyst, its majority shareholder, agreed to cover future losses on loans including Xchange.

In September 2015, Callidus recorded the Xchange investment as an asset for sale at C$66.9 million in a quarterly earnings report.

Then in March 2016, Catalyst transferred C$101 million to Callidus for Xchange, "an amount equal to the total outstanding principal plus accrued and unpaid interest," filings show.

In December 2016, Catalyst told its investors that the Xchange stake was only worth a fraction of what it had paid that March, triggering losses on two of its funds, according to one of the whistleblower complaints and documents reviewed by the Journal.

Mr. McFarlane confirmed he filed one of the whistleblower complaints. His complaint, and one other, alleges that Catalyst funds overpaid Callidus to acquire the Xchange investment, and delayed and underreported potential losses. "I have serious concerns about the integrity of Callidus's accounting around XTG," Mr. McFarlane said.

Last month, the Court of Appeal for Ontario found Mr. McFarlane responsible for a personal guarantee on Xchange's debts that was far less than Callidus was seeking in a civil suit.

Mr. Glassman's companies have also sued or counter sued government agencies and former employees for damages in relation to alleged business breaches and misconduct.

Callidus in February sued a former employee and alleged he was responsible for "artificially inflating" the financial performance of some of its investments, including Xchange. The employee responded in a court filing denying that, and said Callidus made the claim to deflect attention from "multiple complaints and regulatory investigations." Litigation is ongoing.

As part of its quarterly earnings, Callidus in May disclosed that its accounting practices were under review from the OSC. Mr. Glassman told analysts at that time that the review was "nothing extraordinary." He added, "If there was a significant issue with the Commission, I'm fairly certain the Commission would force us to disclose it."

Callidus shares are down 19% this year.