

Hythiam, Inc.

(OTCBB: HYTM)



2010

Forward-Looking Statements



Except for statements of historical fact, the matters discussed in this presentation are forward looking and made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect numerous assumptions and involve a variety of risks and uncertainties, many of which are beyond Hythiam Inc.'s (the "Company") control that may cause actual results to differ materially from stated expectations. Forward looking statements made during this presentation speak only as of the date on which they are made, and we do not undertake any obligations to update any forward looking statement to reflect events or circumstances after the date of this presentation except as required by law.

Before deciding to invest in the Company's common stock, you should view this presentation together with the more detailed information included in the Company's filings with the SEC, including the risk factors listed therein. These risk factors include, among others, a limited operating history, difficulty in developing, exploiting and protecting proprietary technologies, the risk that our treatment program may not be effective, intense competition, substantial regulation in the healthcare industry and additional risks factors as discussed in the Company's periodic reports filed with the Securities and Exchange Commission at www.sec.gov.

Executive Summary



- Third party payors are facing significant pressure to manage healthcare costs
- Health plan members with a Substance Dependence (SD) diagnosis incur substantial costs
 - SD members account for approximately \$100MM in incremental costs per 1MM members
 - HUSD members targeted by Catasys account for ~ 80% of those incremental costs
- Recent mental health parity and health care reform legislation demonstrate a shift in coverage for substance abuse
- Revenue opportunity is driven by Catasys cultivating third-party payor contracts with health plans and large employers
- Catasys SD Solutions include integrated medical and psychosocial interventions, including our proprietary PROMETA[®] Treatment Program
- Multiple customers at various stages of the sales pipeline
- Validation through first Catasys contract, which has been implemented

\$1.5 - \$2 Billion Target Market Opportunity



- 100 health plans cover approximately 191MM members
- Represents approximately a \$1.5 – \$2 billion market opportunity (191MM members x \$9/member)¹
- Mid-size health plans and certain large employers are primary initial target
 - Have less resources to address the population
 - Generally contain more concentrated populations, and implementations will require fewer resources

Sweet Spot: Mid Size Health Plans			
Health Plan Size		Membership (MM)	
(Members)	# of HPs	Aggregate	Average HP
4MM+	10	116.8	11.7
90K - 4MM	90	74.4	0.8
Total	100	191.1	1.9

1. Based on analysis of Ingenix Consulting database of 20MM commercial plan lives and current pricing

Market Opportunity - Today's Paradigm



- Health plans face increasing costs, budget constraints and competition
 - Healthcare costs are projected to increase ~10% in 2010
 - 95% increase in premiums since 2000 (versus 17.5% increase in personal income)
- SD benefits are typically managed by behavioral health organizations under fixed fee contracts with costs controlled through benefit design and utilization management
 - Passive – treatment increases costs to MBHO
 - Focus is managing BH utilization vs. total cost of member
 - Incentives reward under-diagnosis and under-treatment
 - Designed to manage broad population vs. small, high-cost members
 - Fractionated delivery system with wide deviation in treatment approaches

Today's Paradigm – Parity & Health Care Reform



- Wellstone Domenici Mental Health Parity and Addiction Equity Act was passed in 2009 and Interim Final Rules were issued in February 2010
 - Requires parity of financial and treatment limitations between medical benefits and SD benefits.
 - Expected to increase the cost of SD treatment

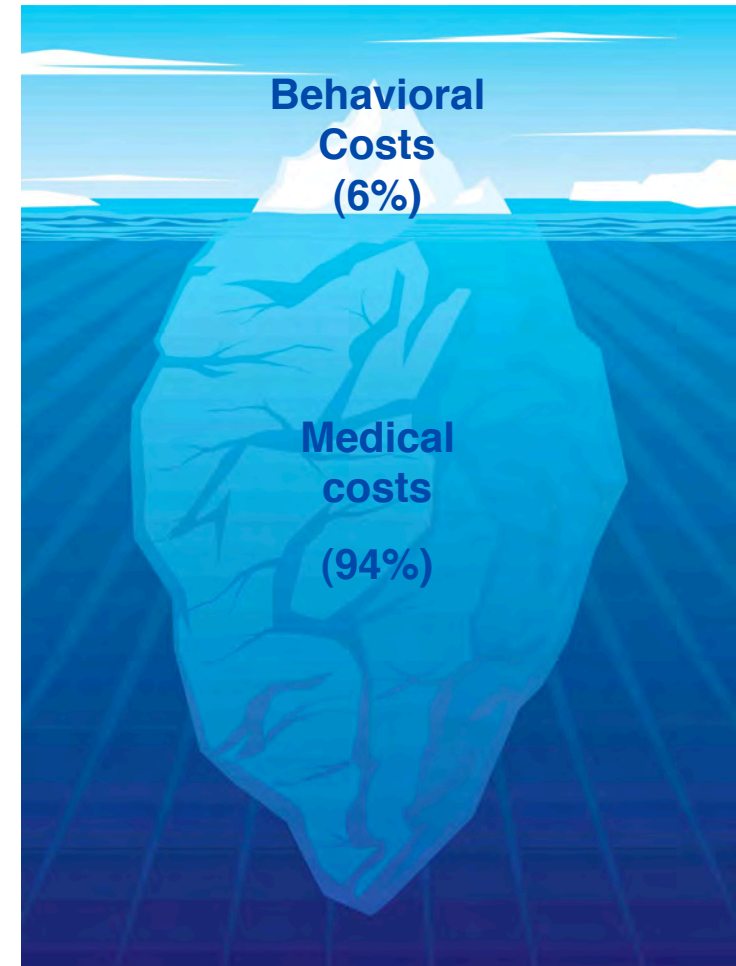
- Full impact of health care reform legislation uncertain; however it is expected to be a catalyst for our business.
 - “Qualified Health Plans” must cover SD treatment
 - Increased cost pressure on health plans drives search for savings-centric solutions
 - Emphasis on accountability and outcomes

- Suggested further regulation limiting premium increases would add greater pressure to reduce health care costs

The Real Costs of Substance Dependence



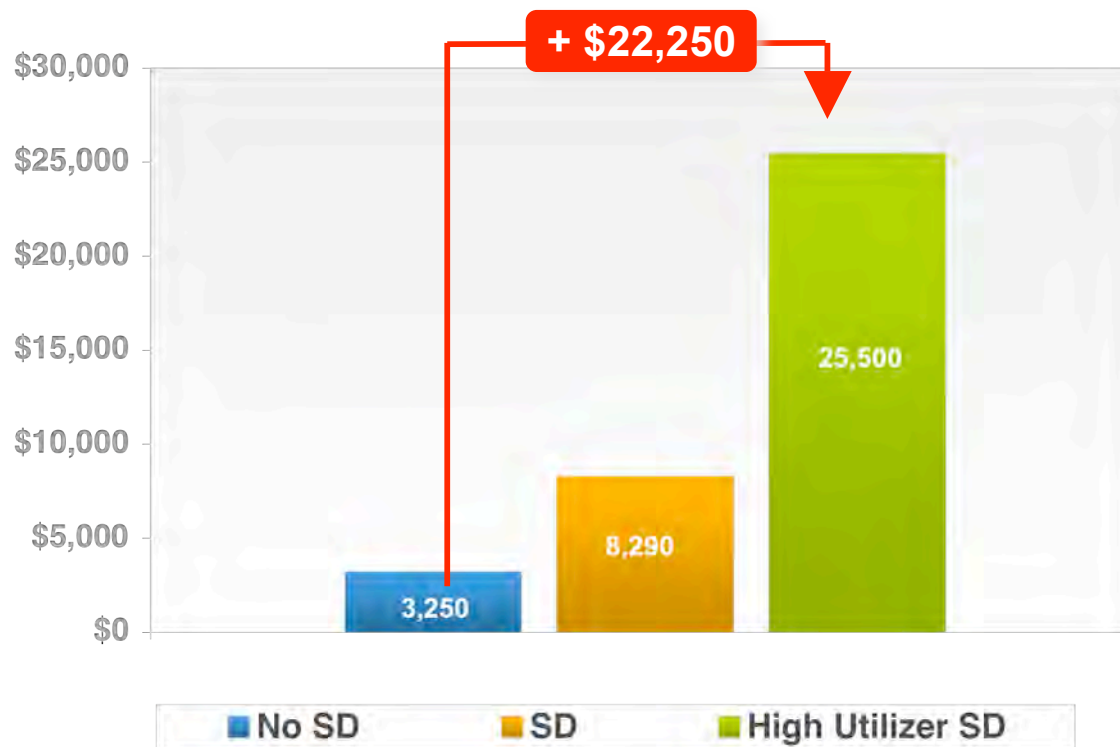
- Medical in-patient utilization drives the majority of cost
- The majority of members with Substance Dependence diagnosis have no behavioral health claims
- Under-diagnosis and under-treatment leads to higher medical costs in higher acuity/more expensive settings



“High Utilizers” Cost \$22,250 More Per Year Than Non-SD Members



Total Costs PMPY (Medical, BH and Rx)

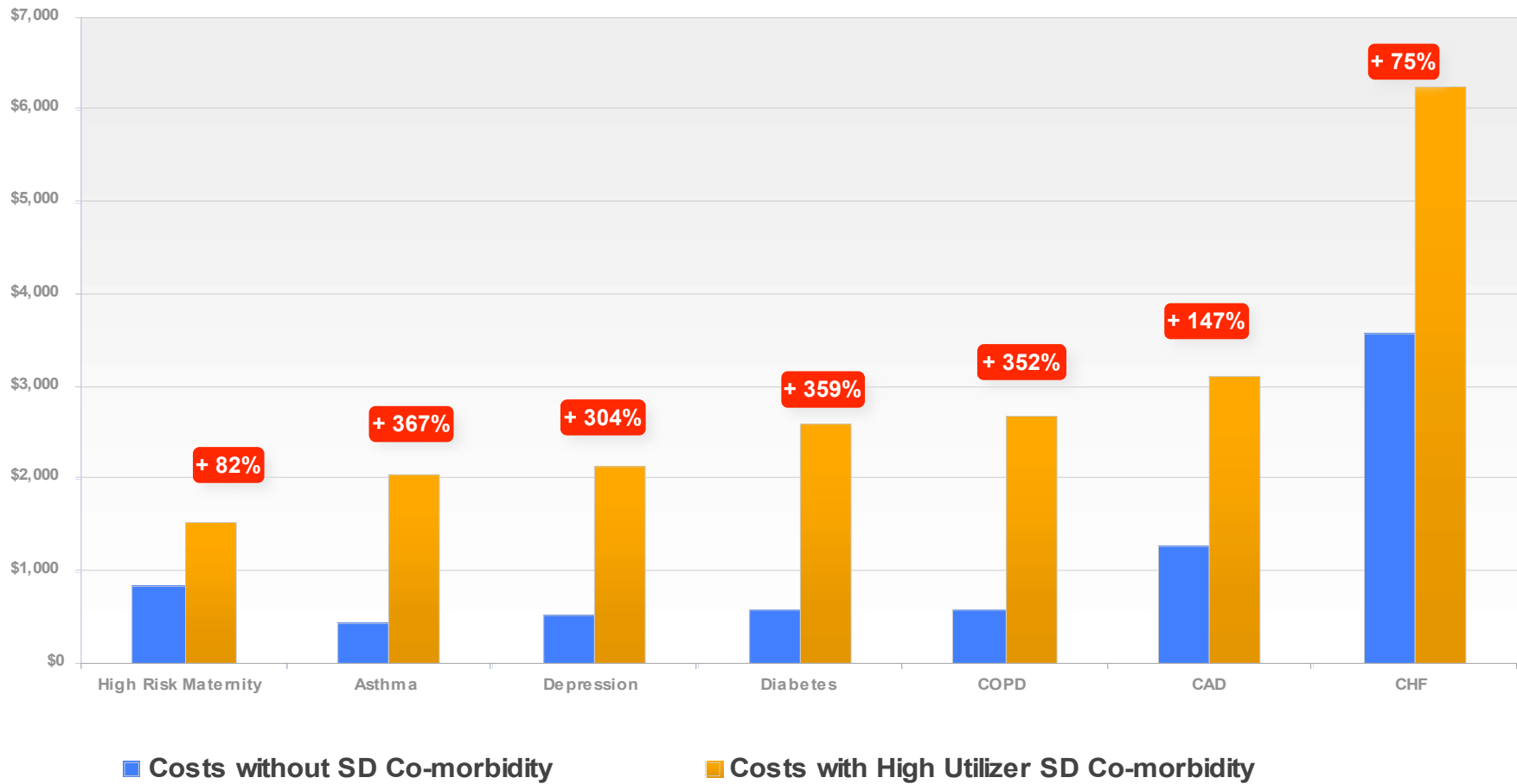


Source: Ingenix Consulting database, 20MM commercial plan lives 2005-2006

SD Increases Costs for Co-Morbid Conditions 75% to 350%



Co-Morbid PMPM Costs: SD versus Non-SD Members



Source: Ingenix Consulting database, 20MM commercial plan lives 2005-2006

Costs Per 1 Million Members



- The incidence of Substance Dependent (SD) members in a commercial population is **1.93%**¹
- **26%** are “High Utilizer” SD members, incurring \$25,500 in claims costs annually¹
 - Driving ~ **\$100MM** in incrementally higher claims annually per 1MM members
 - 26% of SD population drives ~ 80% of costs
- Catasys is designed to target, enroll and manage effective treatment for this population resulting in:
 - Higher engagement and retention in treatment therapies
 - Reduced cravings, lower use and less healthcare costs
 - Between **\$18MM to \$40MM** estimated savings per 1MM members



1. Ingenix Consulting database, 20MM commercial plan lives 2005-2006; members with SD diagnosis in the past 12 months

Catasys - Changing the Paradigm



Lower Total Costs Driven by Catasys' Innovative SD Treatment Paradigm

Seeking out overlooked, high-cost members

- Claims based identification, segmentation & prioritization
- SD Population Market Research
- Regular and continual outreach

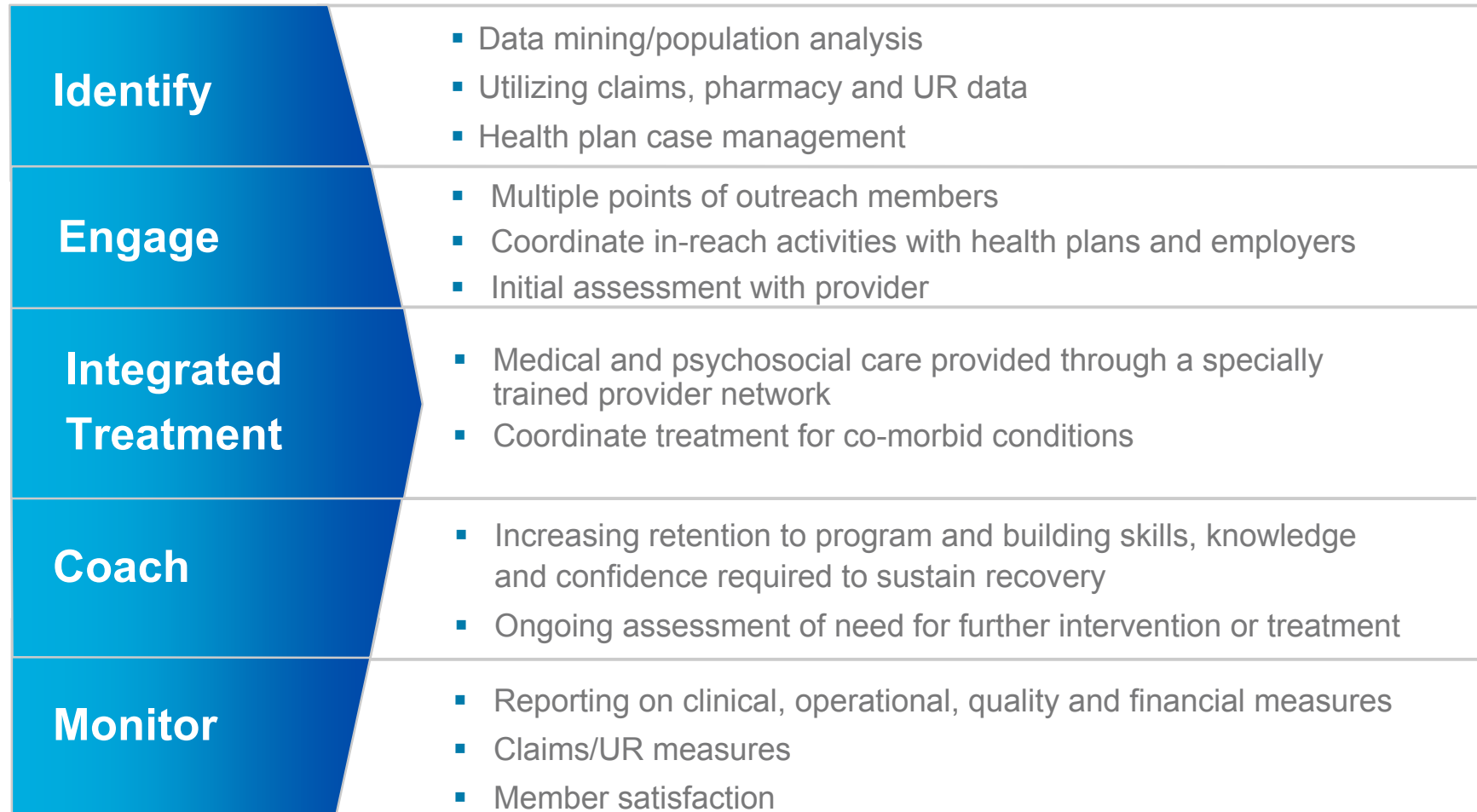
Unified provider to address a fractionated delivery system

- Standardized approach to reduce practice pattern variation
- Continuous training
- Monitor delivery of care
- One, multidisciplinary delivery system
- SD electronic clinical system

Innovative treatment approaches built upon proven science

- Year long OP program
- Patented treatment protocols
- Continuity of treatment
- Dedicated, high-touch support
- Translating science into clinical practice

Catasys Program Flow



Catasys Integrated Treatment Approach



Merges medical, psychosocial and 52 weeks of care coaching

Leverages evidence based medical and psychosocial interventions and best practices

Establishes treatment protocols, standards and outcome metrics

Coordinates care delivery through web based clinical system



Medical & Pharmacological

- Medical evaluation and assessment
- Pharmacological intervention (Naltrexone, Campral, Zofran, Vivitrol, Suboxone), and the proprietary Prometa[®] Treatment Program

Psychosocial

- Proprietary OnTrak[™] Relapse Prevention Program (ORPP)
- Developed in coordination with Dr. Alan Marlatt at U of Washington
- Focused on Cognitive Behavioral and Motivational Enhancement Therapy

Care Coaching

- Personal Coach
- Helps assess, manage and guide member's care
- 52 weeks continuous support, outreach and relapse prevention
- ORPP trained

The Proprietary PROMETA® Treatment Program



Medical

- Outpatient treatment
- Benzodiazepine Antagonist (IV)
- GABA Modulator and Antihistamine (PO)
- All drugs are FDA approved for uses other than treating alcohol/stimulant dependence
- Dosings for all drugs are within their FDA approved indication

Nutritional

- Initial supplementation
- Guidelines for early and sustained recovery

Clinical studies providing support for Prometa

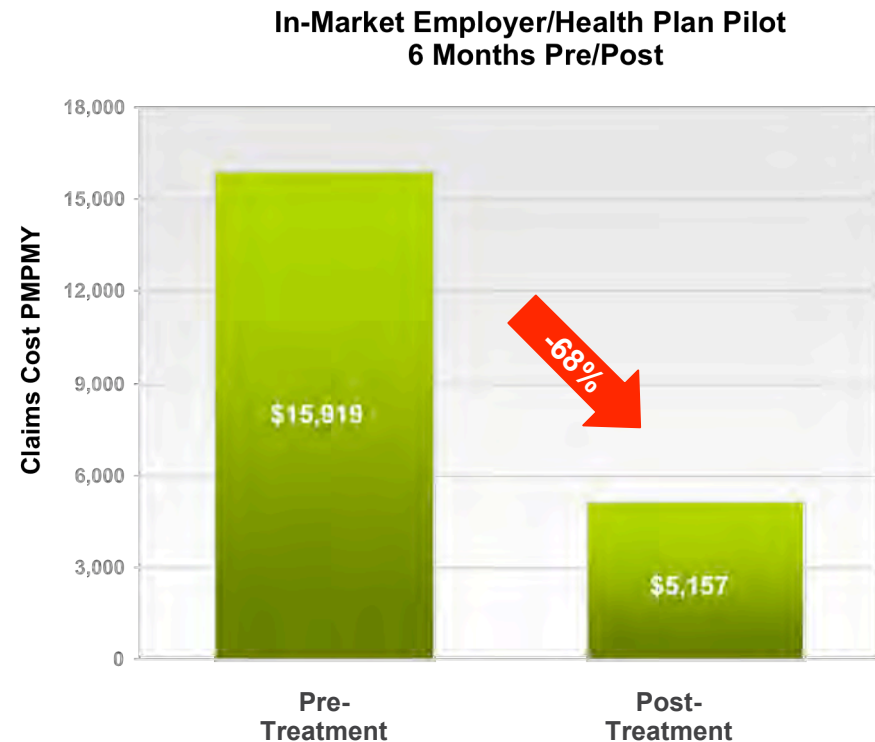
- Dr. Anton alcohol study published in Aug 2009 – Significant difference in use for subjects in active withdrawal
- Dr. Volpicelli alcohol study submitted for publication – Significant difference in use & cravings for subjects with a history of withdrawal
- Dr. Urschel methamphetamine study published in Nov 2009 – Significant difference in cravings



Third Party Payor Pilot



- Small pilot with one self insured group
- 68% reduction in Behavioral Health costs for patients who were treated with the Prometa Treatment Program versus a 57% increase in cost for the control (independently selected by the health plan)
- Demonstrated decreased cravings and use, and mitigated anxiety, depression and stress
- Second larger pilot had having similar clinical results



Program Pricing



Targeted vs. Enrolled	Fees	<p>Combined Monthly Rate Per Enrolled Member \$840/Month*</p>
<p>Targeted High Utilizing Substance Dependent (HUSD) Members – those with total claims costs >\$7,500 whom we target for enrollment</p>	<p><i>Monthly Fee</i></p>	
<p>Enrolled High Utilizing Substance Dependent Members – a subset of the Targeted HUSD group who enroll in the program.</p>	<p><i>Case Rate or Monthly Fee</i></p>	

**Example is a full program. Amount and structure of fees is dependent on program design which may differ by customer*

Estimated Annualized Revenue – Per 1MM Health Plan Members

SD Incidence in members: (1,000,000 x 1.93%)	19,300
High Utilizer population: (19,300 x 26%)	5,018
High Utilizers appropriate for Catasys: (5,018 x 93%)	4,667
Enrolled Members: (4,667 * 20%)	933

Estimated Total Revenue: (933 x 12 months x \$840) \$ 9.4 Million

Ingenix Consulting database, 20MM commercial plan lives 2005-2006

The Hythiam Catasys Opportunity – Payor ROI on High-Utilizers (Based on 1MM Health Plan Members)



	Base	Low
Average claims cost for High-Utilizers	\$ 25,500	
Average claims cost for non-SD members	\$ 3,250	
Potential savings per successfully treated member	\$ 22,250	
Projected savings factor*	59%	39%
Average expected savings per successfully impacted member	\$ 13,128	\$8,761
<u>Savings</u>		
# of impacted members	700	
Net expected savings over three year period	\$27.6 million	\$18.4 million
<u>Cost</u>		
Enrolled members	933	
Treatment cost for Enrolled H/U members	\$9.4 million	
Projected 3 Year ROI	3:1	2:1

*Cost figures and savings factor assumptions are based on review of an actuarial database of approximately 20MM commercial plan lives throughout the U.S. Projected savings factor assumes that not all costs will be saved each year, and include disenrollment (from the health plan) and savings ramp assumptions.

Adoption



- Typical sales cycle is 12-18 months
- Payors at various stages of pipeline
- First contract signed with large employer
 - Implementation represented first milestone
- Early reference customers will drive continued adoption
- Parity and health care reform legislation are expected to increase the demand for new ways to achieve cost savings



Overhead Costs



- Company has significantly reduced operating expenses over the past year
 - Current cash operating expenses are ~ \$10MM/year
- Scalable model
 - Current overhead is substantially sufficient infrastructure for initial anticipated covered lives
 - Operational expenses related to expanding lives under contract are largely variable and adjustable to volume
 - Overhead increases are modest in relation to growth in covered lives as scale up

Why are we unique?



- First to market an integrated substance dependence program
- Offer flexibility to customize solutions to meet health plan needs (different structures, components, etc.)
- Integration of medical, psychosocial and care coaching components across geographies
- Performance based program
- Develop and maintain a specialty sub-network of providers with expertise in addiction



Why are we unique?



(Continued)

- Conduct a focused, targeted enrollment campaign based on our market research and SD experience
- Senior management has diversified and relevant healthcare experience in managed care, SD, consumer marketing, healthcare operations and research and development
 - Nearly 50 years of experience in SD, and over 100 years of health care experience
 - Experience includes prior work within health organizations such as United, Aetna, Cigna, Pacificare and Magellan



Summary



- Significant market opportunity
- Substance Dependence membership represents a considerable and expanding cost saving opportunity
 - High-cost chronic conditions, a focal point of health plans, are even more expensive for Substance Dependent members
- Unique program designed to provide an integrated solution to high-cost members resulting in better outcomes and lower in-patient admissions
- Patented, proprietary medical treatment validated through published studies
- Experienced management team
- Validation through Catasys agreement with Ford Motor Company

