

Former Highland partner offers to take over firm after Ch. 11 filing

A team of former Highland Capital Management LP employees has proposed to step in and manage the firm following its Chapter 11 bankruptcy filing earlier this month.

Patrick Daugherty, who was the head of distressed investing and private equity at Highland Capital until 2011 and is currently president and chief investment officer at Glacier Lake Capital Advisors, has offered for his team to step in if necessary, he told LCD.

Such a proposal, which calls for keeping many of the firm's existing employees, would ultimately need to be accepted by both a Chapter 11 trustee and further receive an approval from a judge in the Delaware bankruptcy court.

"I feel there is a solid platform with good people that just need the leadership to allow them to get back to focusing on investing, all while staying in Dallas," said Daugherty.

Highland Capital Management LP (HCMLP) filed on Oct. 16 for Chapter 11 bankruptcy protection in Delaware, citing its inability to pay a \$189 million judgment awarded in March to former investors in the Highland Crusader Fund, which was shut down in 2008 following the financial crisis. A group of investors in the Crusader Fund, called the Redeemer Committee, in 2016 removed Highland as the investment manager, replacing the firm with Alvarez & Marsal. Daugherty, a former Highland partner, is the second largest creditor to HCMLP, according to the bankruptcy filing.

Scott Ellington, Highland's general counsel, stated in court in March that the firm did not have the cash on hand to meet the judgment awarded to the Redeemer Committee, which is by far the largest creditor to HCMLP.

Co-founder Mark Okada [announced his plans to retire](#) from HCMLP on Sept. 30. Okada has a roughly 25% stake in the firm, while co-founder James Dondero and entities affiliated with him own most of the remaining 75%.

The entity filing for bankruptcy had \$2.5 billion in assets under management, with an additional \$7.5 billion from shared services agreements, while employing 55 salaried employees and 21 hourly workers, according to court filings. HCMLP had \$50 million revenue in 2018 and through the end of August this year, \$24 million.

Similar template to litigation with former Acis partner Terry

HCMLP has also been engaged in highly contested litigation with another one of its former partners, Josh Terry, who was a partner on its CLO management entity formed in 2010, Acis Capital Management.

Following an \$8 million award to Terry for wrongful termination, nearly all of the assets in Acis Capital that would have paid him his judgment were suddenly shifted to other newly formed entities, leading him as the largest creditor to petition for bankruptcy in Texas.

As a result, a Chapter 11 trustee, Robin Phelan, presented a number of different proposals that would end up seeing an assortment of different bids coming from Oaktree Capital Management, Brigade Capital, and Saratoga Investment Corp, among others.

While a number of the earlier proposals from Phelan were [ruled to be not confirmable by the Texas bankruptcy court](#), [Terry was ultimately awarded full ownership of Acis Capital Management](#).

Yet many of the involved CLOs still remain in limbo as the majority equity is still controlled by entities affiliated with Highland Capital or its co-founder James Dondero.

A list featuring six tranches across different Acis vintages was part of a BWIC out for bid this morning, according to data from Empirasign Strategies, but the list was ultimately cancelled.

The tranches on the list included most prominently the entire \$11.5 million senior subordinated tranche of the [Acis CLO 2017-7](#) as well pieces of the mezzanine tranches across the 2014, 2015, and 2017 vintages. The price talk across the four dealers Baird, Barclays, Cantor Fitzgerald, and Janney Montgomery Scott that directly received the BWIC averaged in the low 80s for the mezzanine tranches, according to Empirasign. — [Andrew Park](#)

Latest News

- [Fairstone Financial add-on notes price at 104 to yield 6.64%; terms](#)
- [Netflix completes cross-border bond offering; terms](#)
- [Kellermeyer Bergensons to be acquired by Cerberus](#)
- [QTS Realty obtains \\$1.7B restated pro rata credit facility](#)
- [Liberty Latin America firms pricing for upsized bond deal](#)
- [High-grade: Biogen bonds rally as co. revives Alzheimer's treatment](#)

[Contact LCD](#) [Update Email Preferences](#) [Follow on Twitter](#) [Friend on Facebook](#) [YouTube](#) [LinkedIn](#)

[Privacy and Cookie Notice](#)

Copyright © 2019 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

Reproduction of Leveraged Commentary & Data content (including, without limitation, credit-related analyses, data and ratings)("Content") in any form is prohibited except with the prior written permission of S&P Global Market Intelligence.