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Highland Capital Management LP Co-Founder Out Under Deal With Creditors

James Dondero would have no authority to act on the debt-trading pioneer's behalf



James Dondero, co-founder of Highland Capital Management LP, would leave the firm under a proposed settlement with unsecured creditors. PHOTO: BRENT HUMPHREYS

By Becky Yerak

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The founder of bankrupt hedge fund business Highland Capital Management LP is on his way out as part of a proposed settlement with the fund manager's unsecured creditors' committee.

The Texas-based business on Friday asked the U.S. Bankruptcy Court in Dallas to approve a tentative deal that would overhaul its corporate-governance structure. Changes would include the creation of a three-member independent board of directors at controlling general partner Strand Advisors Inc., as well as the departure of James Dondero, who, if the court approves the settlement, will no longer be a director or employee of Highland or Strand.

Mr. Dondero, who co-founded Highland and is currently Strand's only director, will have no authority to act on Highland's behalf, court filings said.

If the deal is approved by the court, the independent directors, through Strand, will have sole control of Highland, the filing said. The independent board would also have the power to name

an interim chief executive officer. Highland said it still plans to retain Development Specialists Inc. to provide a chief restructuring officer who will report to the independent directors or any CEO who is named.

At Highland, Mr. Dondero helped pioneer the trading of speculative corporate loans. It managed about \$39 billion in 2007 but took heavy losses during the financial crisis and has been embroiled in lawsuits ever since. It had been trying to settle some of the litigation, warning its adversaries that it would seek bankruptcy protection if they didn't compromise.

Highland entered chapter 11 in October listing as its largest debt a disputed \$189 million claim from investors in Highland Crusader Fund, a hedge fund that has been in liquidation since the financial crisis. The second-largest creditor is Patrick Daugherty, a former Highland portfolio-manager who has been in personal and legal conflict with Mr. Dondero since 2012 and has an \$11.7 million claim against Highland, according to court documents.

A group of Crusader investors sued Highland in 2016, demanding Highland be fired as manager for delaying the fund's liquidation and claiming that Highland wrongfully paid itself \$30 million. The group subsequently won an arbitration award that Highland has yet to pay, court documents have shown.

Highland is one of several investment platforms under the same ownership, including Highland Capital Management Fund Advisors LP and NexPoint Advisors LP, which didn't file for bankruptcy.

On Monday a spokesperson for Highland Capital and Mr. Dondero said the agreement will help facilitate a reorganization that will create value for all parties. She said the change affects only the bankrupt business, so Mr. Dondero's roles with NexPoint Advisors and Highland Capital Management Fund Advisors remain unchanged.

Friday's filing said that the independent directors will try to prevent "any negative influence" by Mr. Dondero and others. Also as part of the proposed deal, the committee might pursue claims against Mr. Dondero and others. Mr. Dondero founded Highland with Mark Okada, about 26 years ago. Mr. Okada announced his retirement from the firm in September.

The proposed settlement would help eliminate costly and time-consuming litigation, and give Highland breathing room to rebuild trust with its creditors, exit bankruptcy and preserve the value of its business, the filing said

The independent directors would include James Seery and John Dubel, both of whom were approved by the unsecured creditors committee. A third director will be picked by or acceptable to the unsecured creditors committee.

Mr. Seery is a high-yield and distressed-investing professional who most recently was senior managing director and co-head of credit at Guggenheim Securities LLC, a court filing said.

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Mr. Dubel's has been a director at Purdue Pharma Inc. since July. Purdue, the maker of OxyContin, filed for bankruptcy in September with the aim of resolving thousands of lawsuits filed by states and municipalities accusing it of fueling the opioid crisis.

If Highland's unsecured creditors' committee and the company can't agree on a third independent director, then the term sheet for the settlement is null and void, the filing said.

Members of the Highland unsecured creditors committee include the Redeemer Committee of the Highland Crusader Fund; Meta-e Discovery; UBS Securities LLC; and Acis Capital Management L.P., a court filing said.

Duties of the independent directors will include determining which employees should qualify for key employee retention and incentive plans, a filing said.

—*Matt Wirz contributed to this article.*

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