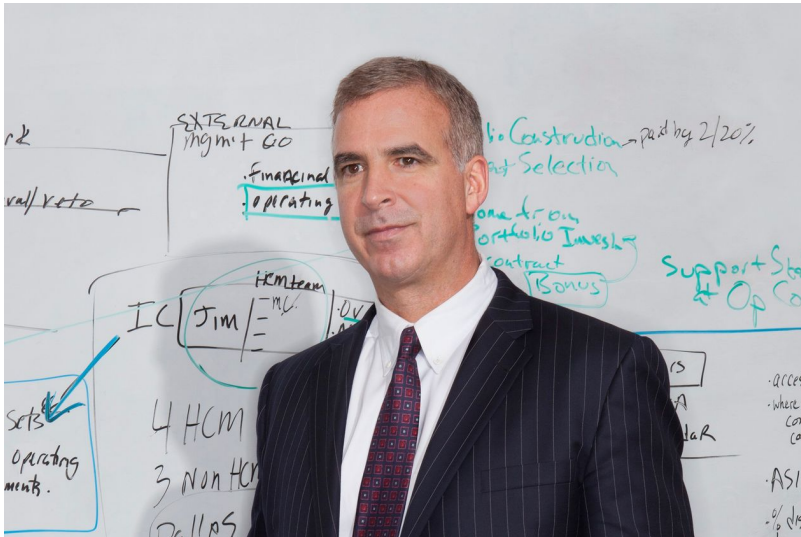


PRO BANKRUPTCY BANKRUPTCY

# Highland Capital Management Files for Bankruptcy

The fund manager has been battling investors in a closed fund



Highland Capital co-founder James Dondero, pictured here in 2011, put the asset manager in bankruptcy on Wednesday.  
PHOTO: BRENT HUMPHREYS

*By Matt Wirz and Andrew Scurria*

Updated Oct. 16, 2019 6:21 pm ET

Highland Capital Management LP, once a giant in high-yield debt markets, filed for bankruptcy protection Wednesday as investors and former employees seek more than \$200 million from the firm for alleged improprieties.

The Dallas-based firm founded by Jim Dondero helped pioneer trading of corporate loans rated below investment-grade and managed about \$39 billion in 2007, but it took heavy losses during the financial crisis and has been embroiled in lawsuits ever since. The company had been trying in recent weeks to settle some of the litigation it faces, warning its adversaries that it would seek bankruptcy protection if they didn't compromise, people familiar with the matter said.

Highland entered chapter 11 in U.S. Bankruptcy Court in Wilmington, Del., 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 its bankruptcy filing.

A group of investors in Crusader sued Highland in 2016 in Delaware Chancery Court, 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 show.

In a statement, Highland said the bankruptcy filing was made "in consideration of its liquidity profile" and stems from a potential judgment in favor of a committee of Crusader Fund investors.

"We are confident that we will recover the full amount of our award through the bankruptcy process," a spokesman for the Crusader investors said.

Highland said it disputes the investors' claims but acknowledged that the maximum potential judgment could exceed liquid assets. Between 2011 and 2016, Highland distributed \$1.55 billion to Crusader Fund investors, completing 90% of the liquidation process, according to the statement.

Mr. Daugherty, once one of Mr. Dondero's lieutenants, has been fighting with his former employer in court since his departure in 2011. Mr. Daugherty won an award that he has been trying to collect since 2014.

"I have been fighting Highland and Dondero for eight years to redeem my name and get the compensation they took from me," Mr. Daugherty said. "I look forward to working with other creditors to make everyone whole."

Mr. Dondero signed off on the bankruptcy petition. Mark Okada, who founded Highland with Mr. Dondero 26 years ago, announced his retirement from the firm last month.

The fund manager 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. Investment and business activities on the platform are operating in the ordinary course and are continuing without disruption, a Highland spokeswoman said.

Highland has subpoenaed The Wall Street Journal related to the litigation between the firm and Mr. Daugherty. Dow Jones, the Journal's parent company, has challenged the subpoena and the matter is pending.

A New York Supreme Court last year dismissed a defamation lawsuit Highland filed against Dow Jones, Wall Street Journal reporter Matt Wirz and Wall Street Journal editor Aaron

Kuriloff over an article in the Journal about the investment firm. Highland has appealed the ruling.

**Write to Matt Wirz at [matthieu.wirz@wsj.com](mailto:matthieu.wirz@wsj.com) and Andrew Scurria at [Andrew.Scurria@wsj.com](mailto:Andrew.Scurria@wsj.com)**