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Highland turnaround is complete as Daugherty takes control of affiliates

By Sayed Kadiri

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Highland Capital Management has struck an agreement with former partner Patrick Daugherty which results in Daugherty being awarded an ownership interest in the Highland platform, complete ownership of two Highland affiliates and a lump sum payment.

“I feel vindicated and proud to have fought for over 10 years on behalf of investors. It was worth it,” Daugherty tells *Creditflux*.

The agreement brings a decade long dispute to an end and, sensationally, sees Daugherty have a seat at Highland. Around the time of his departure in September 2011, he had a spectacular falling-out with co-founder James Dondero over autonomy and a disagreement over how Highland funds should be managed. In March 2012, Daugherty was subpoenaed to testify about the value of Highland as part of Dondero’s divorce (Dondero had claimed both he and Highland were insolvent).

A week later Highland sued Daugherty, after which he counter-sued.

In 2014, a three-week trial ruled that Daugherty was to pay Highland \$2.8 million in legal fees while Highland and Dondero were ordered to pay \$2.6 million plus interest to Daugherty. Highland’s payment was not forthcoming and Daugherty ended up being among Highland’s creditors. As part of the agreement this week, Highland has vacated its claims against Daugherty.

The agreement, reached in the US Bankruptcy court for Northern District of Texas, sees Daugherty receive a general unsecured, non-priority class 8 claim (\$8.25 million); subordinated general unsecured, non-priority class 9 claim (\$3.75 million); a one-off payment of \$750,000; 100% ownership of Highland Employee Retention Assets (HERA) and Highland ERA Management; an agreement to terminate all litigation on both sides.

Daugherty is also a claimant in the Highland bankruptcy, and therefore an interest holder in Highland Claimant Trust (which owns Highland Capital Management and various affiliates and related assets).

Daugherty – who runs credit asset manager Glacier Lake Capital Advisors – has also been given observation access to Claimant Trust Oversight Board meetings, although this is subject to other agreements.

Prior to Highland’s bankruptcy filing in October 2019, a return to the company for Daugherty would have been regarded as remote with the rift between Daugherty and Dondero, which began as a gaping chasm, only widening over the years.

Dondero resigned as chief executive officer of Highland in January 2020, moving into a portfolio management role which he relinquished in October 2020, marking the end of his time at the firm.

The tables then turned when a reorganised Highland (so often at loggerheads with Daugherty during Dondero’s tenure) [filed a lawsuit against Dondero](#) and other former senior executives in October.

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