No. _____

In The
Supreme Court of the United States

EDWARD MANDEL,

Petitioner,

v.

STEVEN THRASHER AND JASON COLEMAN,

Respondents.

On Petition for a Writ of Certiorari to the
United States Court of Appeals for the Fifth Circuit

APPENDIX

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IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 17-40059

United States Court of Appeals
Fifth Circuit
FILED
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In the matter of: EDWARD MANDEL

Debtor

EDWARD MANDEL,

Appellant

v.

STEVEN THRASHER; JASON COLEMAN,

Appellees

In the matter of: EDWARD MANDEL

Debtor

STEVEN THRASHER; LAW OFFICES OF MITCHELL MADDEN, MADDENSEWELL, L.L.P.; JASON SCOTT COLEMAN,

Appellees

v.

EDWARD MANDEL,

Appellant

No. 17-40059

Appeal from the United States District Court
for the Eastern District of Texas
USDC No. 4:15-cv-715
USDC No. 4:15-cv-743

Before KING, JONES, and ELROD, Circuit Judges.

PER CURIAM:*

I. BACKGROUND

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* Pursuant to 5TH CIR. R. 47.5, the court has determined that this opinion should not be Published and is not precedent except under the limited circumstances set forth in 5TH CIR. R. 47.5.4.

This case involves several disputes between co-founders of the company White Nile. The facts underlying these disputes are laid out in this Court's first opinion in this matter. *See In re Mandel (Mandel I)*, 578 Fed. Appx. 376 (5th Cir. Aug. 15, 2014). Mandel and Thrasher initially created White Nile to develop Thrasher's invention. White Nile then hired Coleman as the chief creative officer. Mandel misappropriated White Nile's trade secrets and formed a new company, NeXplore. As explained in *Mandel I*, the bankruptcy court had held "Mandel liable for liable for (1) theft or misappropriation of trade secrets; (2) breach of contract; (3) breach of fiduciary duty; (4) fraud and fraudulent inducement; (5) oppression of shareholder rights; and (6) conspiracy." *Id.* at 382. It had awarded "$400,000 in damages to Coleman; $1,000,000 to Thrasher; and $300,000 to White Nile." *Id. Mandel I* affirmed the liability holdings but remanded to the bankruptcy court so it could "either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record." *Id.* at 382, 391.

A. THE BANKRUPTCY COURT'S OPINIONS

a. Thrasher's Damages

On remand, the bankruptcy court again awarded Thrasher $1,000,000 for Mandel's trade secret misappropriation. *In re Mandel*, 10-40219, 2015 WL 5737173, at *9 (Bankr. E.D. Tex. Sept. 30, 2015). This time, the court described four different theories that could support the damage award to Thrasher.

First, the court assessed what a reasonable royalty for the trade secrets would have been based upon the

settlement agreement that was announced, but never finalized, in the state court case between Mandel, Thrasher and Coleman. *Id.* at *7. This agreement provided for a $900,000 judgment to Thrasher and Coleman as well as a minimum royalty fee of $2,500 quarterly for five years. *Id.* The bankruptcy court reasoned as follows:

> [T]he announced settlement agreement suggests an appropriate damages award would be $1,010,000, consisting of the $900,000 agreed judgment, a royalty fee of $30,000 for three years of minimum quarterly payments of $2,500 per quarter, and a royalty fee of $80,000 arising from a two-year license Mandel testified NeXplore signed in October 2010.

Id.

Second, the court assessed damages under a lost asset theory. *Id.* at *8. At trial, Thrasher and Coleman had presented expert evidence of Brad Taylor, who testified that companies comparable to White Nile were worth between $1 million and $344 million. *Id.* The bankruptcy court held that "White Nile's value is closest to the lowest valued company on Taylor's list of companies, which is $1 million." *Id.* The bankruptcy court came to this conclusion because it took "into account the significant rate of failures [of comparable companies], the dysfunctional executive team [of White Nile], the lack of a functional product, NeXplore's abandonment of its efforts to create its own search engine, and the lack of profits by White Nile and NeXplore." *Id.*

Third, the court assessed damages by determining the benefit that Mandel received from his misappropriation. *Id.* at *9. Again, the court relied on the opinion of Coleman and Thrasher's expert Taylor:

> According to the claimants' expert, Brad Taylor, the market capitalization of NeXplore was $47.17 million at the high end and $1.67 million at the low end — thus indicating a value range of $25.9 million to $920,000 for the value of Mandel's 55% interest. White Nile was a nascent search market company with no financing, no usable product, no customers, no profit, and a dysfunctional executive team who engaged in litigation over control of White Nile and its intellectual property. This Court, therefore, again looks to the low end of the market capitalization spectrum for NeXplore in calculating damages for misappropriation, which is $920,000.

Id. The court noted that it did not take Mandel's salary and other benefits into account because "the trial record did not establish that Mandel received his salary or benefits on account of misappropriation." *Id.* at *9 n.9.

Fourth, the court stated that it "also considered the amount of investments NeXplore secured using ideas and materials very similar to those prepared for White Nile." *Id.* at *9. The court reasoned that "NeXplore raised approximately $2.5 million from investors before abandoning its attempt to create its own search engine. This would indicate a value of

$1,375,000 attributable to Mandel's 55% interest in NeXplore." *Id.*

Taking all of this evidence into account, the court awarded $1 million dollars to Thrasher for misappropriation of trade secrets. *Id.* The court also found that Thrasher should be awarded $300,000 for Mandel's fraudulent misrepresentation "that he would invest $300,000 in White Nile in order to induce Thrasher to do business with him." *Id.* at *6. However, the court awarded Thrasher $1 million in total because it held that Thrasher's misappropriation damages "are co-extensive with and subsume the damages he incurred on account of his other compensable claims against Mandel." *Id.* at *9.

b. Coleman's Damages

The bankruptcy court awarded Coleman $400,000 in damages for misappropriation, which the court held were "subsumed by and co-extensive with his fraudulent inducement damages." *Id.* The court arrived at this number by examining Coleman's consulting agreement with White Nile, which would have provided him with $133,000 each year for three years as well as "an approximately 0.5% equity interest in White Nile." *Id.* The court found that "[b]ased on the Court's valuation of White Nile, the value of a 0.5% of an equity interest in White Nile is approximately equal to the amount White Nile paid Coleman." *Id.*

c. Attorneys' Fees

The bankruptcy court held that *Mandel I* did not vacate the court's initial award of attorneys' fees and therefore declined to alter its initial award. *Id.* at *6.

d. Damages to White Nile

After a motion for reconsideration, the bankruptcy court held that *Mandel I* did not vacate the court's initial award of $300,000 in compensatory damages to White Nile. *In re Mandel*, 10-40219, 2016 WL 1178441, at *7 (Bankr. E.D. Tex. March 23, 2016). However, the court described what it would do if the damages award had been vacated. The court explained that it initially awarded $300,000 in damages for Mandel's "breach of his non-disclosure agreement with White Nile, breach of his fiduciary duty to White Nile, and fraud." *Id.* at *5. If the award were vacated, the bankruptcy court would award an additional $197,000 to White Nile, which is the amount that Mandel diverted from White Nile's bank account to NeXplore. *Id.* at *7. The bankruptcy court rejected White Nile's arguments that it was entitled to the salary Mandel received from NeXplore or other investments received by NeXplore. *Id.* at *5-7.

B. THE DISTRICT COURT'S OPINION

The district court affirmed the bankruptcy court's orders on all damage determinations other than the damages for White Nile. *Mandel v. Thrasher*, 4:15-cv-715, 2016 WL 7374428 (E.D. Tex. Dec. 20, 2016). On Thrasher's damages, the district court's analysis differed in a couple of respects. First, it held that the bankruptcy court had not awarded damages based on the failed state court settlement, but had merely "pointed out that Thrasher argued in closing that the [settlement] was some evidence of a reasonable royalty rate and that the ultimate amount of damages that the bankruptcy court awarded to Thrasher was similar to the agreed upon sum in the [settlement]."

Id. at *11 (internal citations omitted). Second, the court held that the bankruptcy court had not actually accepted the benefit of misappropriation theory, since it stated that "the trial record did not establish that Mandel received his salary or benefits on account of misappropriation." *Id.* at *12. The district court upheld the bankruptcy court's assessment of damages under the lost asset theory. *Id.* at *11.

As for Coleman's damages, the district court clarified the bankruptcy court's order by providing a rationale for using Coleman's contract to assess his misappropriation damages:

> . . . Coleman assigned his intellectual property rights to White Nile in exchange for a $133,000 annual salary for three years, plus a 0.5% equity interest in White Nile. The agreement between Coleman and White Nile is some evidence of the value of Coleman's intellectual property rights, and thus, evidence of the value of White Nile's trade secrets, to Mandel. Three years of Coleman's annual salary of $133,000 would have totaled $399,000. The bankruptcy court valued White Nile at $1 million. 0.5 percent of $1 million is $5,000. In sum, the value of Coleman's salary plus the value of his equity interest in White Nile, as promised under the contract, is roughly $400,000. When measured against the peculiar facts and circumstances of this case, valuing the damages to Coleman for Mandel's misappropriation of Coleman's trade secrets by determining the value of Coleman's initial contract with White Nile fits within the flexible and imaginative approach used

> to calculate damages in a case like this one, as condoned by the Fifth Circuit in *Wellogix*.

Id. at *13 (footnote and citation omitted).

The district court held that *Mandel I* had vacated White Nile's damages award because "(1) Thrasher brought claims both individually and derivatively on behalf of White Nile; (2) the Fifth Circuit affirmed the findings of the bankruptcy court regarding the claims on which White Nile prevailed; and (3) the Fifth Circuit vacated the entire compensatory damages award." *Id.* at *13. The district court increased the award to White Nile by $197,000 for the reasons given in the bankruptcy court's opinion. *Id.* at *15.

The district court affirmed the bankruptcy court's award of attorney's fees. *Id.* at *13.

II. STANDARD OF REVIEW

This Court applies the same standards of review to the bankruptcy court's order as those employed by the district court. *Matter of Hawk*, 871 F.3d 287, 290 (5th Cir. 2017). Therefore, it reviews "questions of fact for clear error and conclusions of law de novo." *Matter of Cowin*, 864 F.3d 344, 349 (5th Cir. 2017).

III. ANALYSIS

As noted above, *Mandel I* remanded the compensatory damages awards to the bankruptcy court. *Mandel I* explained:

> Damages need not be proved with great

specificity. A flexible approach is applied to the calculation of damages in a misappropriation of trade secrets case. "Where the damages are uncertain ... we do not feel that the uncertainty should preclude recovery; the plaintiff should be afforded every opportunity to prove damages once the misappropriation is shown." It is sufficient that the plaintiff demonstrates "the extent of damages as a matter of just and reasonable inference" even if the extent is only an approximation.

In the present case the bankruptcy court did not make clear the theory upon which it was relying to award damages nor did it explain the evidence supporting the amount of damages. While it is true that uncertainty should not preclude recovery in a trade secrets misappropriation case, Thrasher and Coleman were required to produce enough credible evidence to show "the extent of the damages as a matter of just and reasonable inference," even if the "result be only approximate." From the bankruptcy court's opinion we do not see an approximation—only numbers chosen by the court.

. . .

Because neither the bankruptcy court nor the district court explained the evidentiary and legal basis for the

> damages awarded, we are unable to review the damages adequately. Because, however, Thrasher and Coleman did suffer some damage, we vacate the award of compensatory damages and remand to the bankruptcy court so that it may either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record.

578 Fed. Appx. at 390-91 (footnotes omitted).

Mandel I quoted from *Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867 (5th Cir. 2013), which gives some examples of ways to assess trade secret misappropriation damages:

> Damages in misappropriation cases can take several forms: the value of plaintiff's lost profits; the defendant's actual profits from the use of the secret, the value that a reasonably prudent investor would have paid for the trade secret; the development costs the defendant avoided incurring through misappropriation; and a reasonable royalty.

578 Fed. Appx. at 390 (quoting *Wellogix*, 716 F.3d at 879). This flexible approach has been approved by the Texas Supreme Court, which has held that "[a] 'flexible and imaginative' approach is applied to the calculation of damages in misappropriation-of-trade-secrets cases." *Sw. Energy Prod. Co. v. Berry-Helfand*,

491 S.W.3d 699, 710 (Tex. 2016) (quoting *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 538 (5th Cir.1974)). Texas requires "reasonable certainty" to establish lost profits, but not for other methods of assessing damages. *See id.* at 711-12 ("[L]ack of certainty does not preclude recovery.").

A. THRASHER'S DAMAGES

Mandel challenges all four of the methodologies employed by the bankruptcy court to assess Thrasher's damages. Mandel argues that the bankruptcy court violated the law of the case doctrine by crediting damage models and expert testimony it had previously rejected. However, as explained by the district court, the bankruptcy court did not violate the law of the case doctrine because *Mandel I* vacated the bankruptcy court's opinion regarding compensatory damages. *See Mandel v. Thrasher*, 2016 WL 7374428 at *11; *Mandel I*, 578 Fed. Appx. at 391. Thus, "anything that the bankruptcy court decided regarding compensatory damages in its initial Findings of Fact and Conclusions of Law is not the law of the case." *Mandel*, 2016 WL 7374428, at *11.

Mandel challenges the damages award based on the lost asset theory because it relies on Taylor's testimony. Mandel argues this was improper because "Taylor did not include failed companies in his valuation—and the vast majority of Internet search engine startups fail." Furthermore, Mandel criticizes the bankruptcy court for merely picking a number within a range provided by the expert, rather than accepting the value proposed by the expert. However, as outlined above, the bankruptcy court did not merely pick

a number within a range but gave a reasonable explanation for choosing a number at the lower end of the expert's testimony. The bankruptcy court also accounted for the "significant rate of failures" of comparable companies in its analysis. *In re Mandel*, 2015 WL 5737173, at *8. Furthermore, under Texas law, a "jury generally has discretion to award damages within the range of evidence presented at trial." *Sw. Energy Prod. Co.*, 491 S.W.3d at 713. The bankruptcy court sitting as factfinder is entitled to the same amount of deference.

Mandel also argues that the use of the lost asset theory is not suitable to value the misappropriation. Mandel argues this is the case because he did not destroy or otherwise prevent Thrasher from using those trade secrets. Under *Wellogix*, however, the correct inquiry is what the misappropriation did to the market value of the company, not whether or not the trade secret was destroyed. In *Wellogix*, this Court upheld a judgment of compensatory damages for trade secret misappropriation that was equal to the value of the company (after deducting licensing fees) before the misappropriation. *Wellogix*, 716 F.3d at 879. This was because the "misappropriation created a competitive disadvantage" that "caused Wellogix's value to drop to 'zero.'" *Id.* at 880. Therefore, because White Nile's value dropped to zero after the trade secrets were misappropriated, the bankruptcy court did not clearly err or violate this Court's mandate by assessing damages on this theory.

Mandel argues it was improper for the bankruptcy court to rely on the failed state court settlement.

Thrasher and Coleman appear to agree, because instead of responding to this argument they state that "the bankruptcy court clearly did not seek to support its damages award on remand for misappropriation based upon the failed state court settlement." Because this Court finds the award was supported under the lost asset theory, it need not address this issue.[1]

Mandel also challenges the award to Thrasher for fraud, breach of contract, and breach of fiduciary duty. These damages are subsumed within the misappropriation damages. Therefore, because this Court upholds the misappropriation damages, there is no need to address these other arguments.

Without having cross-appealed, but in further response to Mandel's contentions, the Appellees argue that, "if the bankruptcy court erred with respect to its re-evaluation of [their] expert's testimony it[] only did so by woefully undervaluing the IP and the damages awarded." They also argue that the bankruptcy court

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[1] Mandel also challenges the other two damage theories that were discussed by the bankruptcy court: the interest of NeXplore Mandel received as a result of the misappropriation or the investments NeXplore acquired using "ideas and materials very similar to those prepared for White Nile." 2015 Bankr. LEXIS 3310, 2015 WL 5737173, at *9. This Court need not address these arguments in detail because Thrasher's damages may be upheld on the lost asset theory. However, these theories do provide further evidence that the bankruptcy court had reasonable justifications for the $1,000,000 award to Thrasher.

could have awarded much larger sums using NeXplore's value or investments. Given the bankruptcy court's compelling reasons for choosing numbers at the lower end of Taylor's testimony, the bankruptcy court did not clearly err or violate this Court's mandate by awarding claimants much less than they asked for.

B. COLEMAN'S DAMAGES

Mandel argues that the award to Coleman is improperly based upon Coleman's void contract with White Nile. However, as explained by the district court, this contract merely provides some evidence of a reasonable royalty for Coleman's intellectual property that was misappropriated by Mandel. *Mandel I* held that "the damages awarded must have some rational relationship to the evidence presented." *Mandel I*, 578 Fed. Appx. at 391. The district court has adequately explained how the value of Coleman's contract has a rational relationship to the value of his misappropriated intellectual property.

Mandel also challenges the award to Coleman for fraudulent inducement and conspiracy. However, these damages were subsumed by the misappropriation damages. Therefore, because this Court upholds the misappropriation damages, there is no need to address these other arguments.

C. WHITE NILE'S DAMAGES

Mandel and the appellees agree that *Mandel I* vacated the bankruptcy court's initial award of $300,000 to White Nile. Mandel challenges both awards to White Nile. First, Mandel correctly points out that the

bankruptcy court and district court failed to provide an explanation for the $300,000 award. If Mandel's representation to Thrasher that he would invest $300,000 in White Nile can support this award, then the award may be upheld on this basis. Mandel argues this would be improper because Texas law does not allow benefit-of-the-bargain damages for fraud. He cites a Texas Supreme Court case that holds "[w]hat the plaintiff might have gained is not the question, but what he had lost by being deceived into the purchase." *George v. Hesse*, 100 Tex. 44, 93 S.W. 107, 108 (Tex. 1906). However, it appears that the Texas Supreme Court has held the opposite more recently: "Texas recognizes two measures of direct damages for common-law fraud: the out-of-pocket measure and the benefit-of-the-bargain measure." *Formosa Plastics Corp. USA v. Presidio Engineers and Contractors, Inc.*, 960 S.W.2d 41, 49 (Tex. 1998). No matter the resolution of this possible conflict, however, both the loss and benefit-of-the-bargain to White Nile were the same, $300,000.

Second, Mandel argues that White Nile is not entitled to the $197,000 award because Mandel didn't divert these funds. Rather, he argues that he "refunded the funds to the Laynes . . . . [and] the Laynes later invested those same funds in NeXplore." Mandel argues that it was proper for him to "refund" the investment to the Laynes because he defrauded the Laynes into making the investment in the first place. However, as stated by the bankruptcy court, he breached his fiduciary duty to White Nile by releasing these funds.

D. ATTORNEY'S FEES

Mandel argues that *Mandel I* vacated the attorney's fees awards because actual damages must be found in order to award attorneys' fees. He also argues that *Mandel I* must have vacated attorneys' fees because he argued in *Mandel I* that the award should be vacated if the actual damages were vacated. However, *Mandel I* explicitly found that Claimants "suffered some damage" and affirmed the attorneys' fees to Coleman. *Mandel* I, 578 Fed. Appx. at 391. *Mandel I* also only explicitly vacated the compensatory damages award. *Id.* at 392. Therefore Mandel's appeal on this ground is meritless.

IV. CONCLUSION

For the foregoing reasons, we conclude that the bankruptcy and district courts fulfilled this court's mandate on remand. Neither clear error nor legal error occurred on remand. The judgment of the district court is **AFFIRMED**.

JENNIFER WALKER ELROD, Circuit Judge, dissenting:

I agree with the majority opinion that it was permissible for the bankruptcy court and district court to reconsider the evidence on remand without running afoul of the mandate rule or violating the law of the case doctrine. Indeed, we specifically instructed the bankruptcy court that "it may either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record." *In re Mandel*, 578 F. App'x 376, 391 (5th Cir. 2014) (*Mandel I*). However, the

majority opinion errs in holding that the revised method used, which the bankruptcy court had previously rejected, provides a just and reasoned basis for awarding damages. While we allow flexible and creative approaches for approximating damages in misappropriation cases, that flexibility can only stretch so far before it snaps. That is what happened here. Therefore, I respectfully dissent.

I.

Our caselaw cannot be bent to support the award of unproven damages. A holistic view of our cases shows that there are limits to how far our flexible and creative standard can be stretched. We recognize that damages can be uncertain in trade secret cases and "do not feel that uncertainty should preclude recovery," which is why we allow flexibility in calculating damages. *Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867, 879 (5th Cir. 2013). "[P]laintiffs are entitled to adapt their damages theory to fit within the particular facts of the case" and should be afforded every opportunity to prove damages once misappropriation is shown. *Id.; Carbo Ceramics, Inc. v. Keefe*, 166 F. App'x 714, 724 (5th Cir. 2006). Even when approximating a damages award, however, the evidence must show "the extent of damages as a matter of just and reasonable inference." *Wellogix*, 716 F.3d at 879. But *Wellogix* is not a magic incantation that can be used to obviate the limits of that flexible approach, which are expressed in the caselaw on which *Wellogix* directly relies. *See id.* (citing *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974) and *Carbo Ceramics, Inc. v. Keefe*, 166 F. App'x 714 (5th Cir. 2006)).

In *Carbo*, we held that damages were too speculative because there was no evidence of: (1) lost profits; (2) actual sales by the defendant; (3) development costs saved; (4) what a reasonably prudent investor would have paid for the trade secret; or (5) a reasonable royalty. 166 F. App'x at 724-25. We stated that "any damage model built on speculative revenues and operating profit from an unbuilt plant, is in an[d] of itself, inherently speculative." *Id.* at 724.

In *University Computing*, we stated that while "every case requires a flexible and imaginative approach to the problem of damages . . . [c]ertain standards do emerge from the [caselaw]." 504 F.2d at 538-39. These standards primarily require that the defendant "must have actually put the trade secret to some commercial use." *Id.* The usual approach is to measure the value of the secret to the defendant through lost profits, a reasonable royalty, or development costs, or the value of the secret to the plaintiff if a specific injury can be proven. *Id.* at 535-38*; see also* James Pooley, Trade Secrets § 12.04(2)(f) (2017) (stating a plaintiff may establish the value of its secret "through the amount of effort or money invested in its development, the willingness of others to pay for securing access to it, and the various ways in which using the information improved the efficiency or success of the plaintiff's business"). In most cases, "the proper measure is to calculate what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use defendant intended at the time the misappropriation took place." *Id.* at 535.

In sum, our caselaw allows for flexibility and imagination in awarding damages but also mandates

that any such award still be tethered to a non-speculative evidentiary anchor and based upon a theory appropriate to the harm in the case. *See also* James Pooley, Trade Secrets § 7.03(2)(a) (2017) ("Which [theory], alone or in combination, should be pursued depends upon the facts of the case."). As detailed below, that standard was not met here.

II.

In *Mandel I*, we determined that the award of compensatory damages to Thrasher, Coleman, and White Nile could not be supported on a record where the bankruptcy court had rejected all proposed damages models. *Id.* at 390-91. The error was not with the bankruptcy court's carefully reasoned explanation of why it rejected the various models as not suited to the facts of the case. *See id.* at 389-90. The error was that, even having rejected the damages models, the bankruptcy court proceeded to award damages, and we could not evaluate whether that award was correctly calculated without knowing the model the bankruptcy court used. *Id.* at 391 ("Because neither the bankruptcy court nor the district court explained the evidentiary and legal basis for the damages awarded, we are unable to review the damages adequately.").

Importantly, we discussed in detail the bankruptcy court's rejection of the "lost asset" theory and the evidentiary deficiencies with that damages model. *Id.* at 389. *Mandel I* was a cross-appeal and whether the bankruptcy court properly rejected the "lost asset" damage model was a question expressly before the court. Thrasher and Coleman had explicitly argued that *Wellogix* supported the award of damages, and even greater damages, based on the evidence at trial.

Id. at 390. If the lost asset theory was viable based on the evidence from the original trial, we could have affirmed the award of damages on that basis. Instead, we held that without knowing which damages model was used, we could not review whether the model was appropriate to the case or the evidence was sufficient to support the amount awarded under that model. *Id.* at 390. We explained that "Thrasher and Coleman were required to produce enough *credible evidence* to show 'the extent of the damages as a matter of just and reasonable inference,' even if the 'result be only approximate.'" *Id.* at 390 (emphasis added).

On remand, without an evidentiary hearing, the bankruptcy court awarded $1,000,000 to Thrasher based on the lost asset theory, $400,000 to Coleman based on the value of his consulting contract, and it also determined that the initial $300,000 award to White Nile had not been vacated by *Mandel I*. *In re Mandel*, No. 10-40219, 2015 WL 5737173, at *1 n.1, *9 (Bankr. E.D. Tex. Sept. 30, 2015). The district court affirmed the award of compensatory damages to Thrasher and Coleman, and determined that, White Nile's damages were vacated in *Mandel I*, but that White Nile was entitled to $497,000 in damages. *Mandel v. Thrasher*, Civil Action No. 4:15-cv-715, 2016 WL 7374428, at *11-15 (E.D. Tex. Dec. 20, 2016)

III.

I turn first to the award of damages to Thrasher based on the lost asset theory. The bankruptcy court awarded Thrasher damages based on a theory that it had characterized in its first opinion as "not helpful for determining damages based on the facts of this case." *In re Mandel*, No. 10-40219, 2011 WL 4599969,

at *28 (Bankr. E.D. Tex. Sep. 30, 2011); *Mandel v. Thrasher*, Civil Action No. 4-11-cv-774, 2013 WL 336729, at *10 (E.D. Tex. July 3, 2013) (same). We did not disagree with that characterization of the lost asset theory in *Mandel I*. *See* 578 F. App'x at 389. The initial explanation of the evidentiary deficiencies with the lost asset theory bears repeating: (1) the valuation of White Nile by expert Brad Taylor "fail[ed] to adequately account for the extremely high failure rate of companies like White Nile"; (2) expert Dr. Gilbert F. Amelio testified that any potential profitability in White Nile would not become bankable for years, if ever, and that 80% of similar companies fail to become profitable; (3) Dr. Amelio testified he had done no due diligence on White Nile specifically and was unsure whether he would invest; (4) the "evidence of NeXplore's fair market value [was], at best, fuzzy"; (5) Mandel's salary from NeXplore was not an indication of the company's value; and (6) the Laynes' investment in White Nile was not credible evidence of value because it was made based on false information. *In re Mandel*, 2011 WL 4599969 at *27. The bankruptcy court's initial observations about the flaws in this evidence were correct, and it should not have second-guessed itself on remand.

The majority opinion dodges the inconsistency in the bankruptcy court's evaluation of the lost asset theory on remand by explaining that *Mandel I* vacated the compensatory damage award and did not bind the bankruptcy court to its prior findings under the law of the case doctrine. Simply because the bankruptcy court was not bound by that prior finding does not mean that any evidentiary defects that led the court to reject the lost asset theory were suddenly

remedied. The fact that we held that Thrasher and Coleman suffered some damages did not transform a theory for which there was no rational relation to the evidence into a basis for the award of damages. *See Mandel I*, 578 F. App'x at 391. The lost asset theory is not an appropriate damages model here where the technology is not yet functional and the potential profitability of the company is purely speculative. *See Carbo*, 166 F. App'x at 724.

The majority opinion contents itself with the bankruptcy court's about-face by stating there was a "reasonable explanation for choosing a number at the lower end of the expert's testimony" and that the failure rate of comparable companies was accounted for in that analysis. Even assuming, *arguendo*, that the lost asset damages model is appropriate to use here, this logic fails to account for the inherently speculative nature of selecting a value for White Nile anywhere within Taylor's range. Taylor's valuation range only relied on data for successful companies and did not account for the specific risks of White Nile failing. *See Mandel v. Thrasher*, 2013 WL 3367297 at *10. That risk cannot be factored into the analysis on the back-end simply by picking a number at the low end of the range. These risk factors, as the bankruptcy court recognized, were significant: there was "the dysfunctional executive team, the lack of a functional product, NeXplore's abandonment of its efforts to create its own search engine, and the lack of profits by White Nile and NeXplore." *In re Mandel*, No. 10-40219, 2015 WL 5737173 at *8. Simply because an expert creates a value range of technology companies does not necessitate that the value of the company at issue falls within that range.

White Nile, based on its specific risk factors, could have been valueless. Taylor's model assumes the ability to get a product to market and secure the backing of investors. The evidence presented at trial makes it doubtful that White Nile would do so. Puzzlingly, the bankruptcy court seemed to acknowledge this, even on remand, stating that: White Nile's executive team was not "capable of transforming an idea into a viable business" and "even before the misappropriation occurred, White Nile was having difficulty raising the funds necessary for development costs in sufficient time to beat competitors." *Id.* The evidence here did not support an award of damages anywhere within Taylor's value range as a matter of just and reasonable inference. This was speculation all the way down.

The majority opinion further claims that because "White Nile's value dropped to zero after the trade secrets were misappropriated," the holding in *Wellogix* supports the award of damages. Far from supporting the majority opinion, the evidence supporting the damages award in *Wellogix* only further illustrates the speculative nature of the evidence here. In *Wellogix*, the damage expert's valuation of the company at $27.8 million was based on: (1) the decision by venture capital groups to invest $8.5 million for a 31% equity stake; (2) that an employee of the misappropriating company believed one application of the intellectual property alone could generate $20 million in annual fees; (3) other companies viewed the technology as valuable; (4) no other company had the technology at issue for a period of five years; and (5) the venture capital groups had done significant auditing of the company's financials before investing. 716 F.3d at 879-80. An expert had testified that "based on his

knowledge of the software industry, 'the total value of Wellogix went to zero' after the alleged misappropriation." *Id.* at 880.

Unlike in *Wellogix*, where there was a company-specific valuation based on credible evidence, here the expert never specifically valued White Nile based on its particular characteristics. White Nile had one investor whose investment was eventually returned, there was no indication that other companies found the technology valuable—even NeXplore failed to bring it to market—nor was there any indication that the technology (if ever actually developed) would be sufficiently unique to carve out a market share. The majority errs in comparing the evidence of White Nile's value in this case to *Wellogix*. A square peg cannot fit in a round hole.

IV.

The award of damages to Coleman fares no better. The majority opinion without further analysis accepts the district court's conclusion that Coleman's consulting contract provides some evidence of a reasonable royalty. Further examination shows that this too is an inappropriate basis on which to award damages. The district court relied on the flexibility afforded by *Wellogix*, adopting a reasonable royalty standard as the measure of damages in expanding upon the bankruptcy court's finding of damages based on the contract. *Mandel v. Thrasher*, 2016 WL 7374428 at *12-13; *In re Mandel*, 2015 WL 5737173 at *9. The reasonable royalty standard is used to measure the value of the intellectual property to the misappropriating party. *University Computing*, 504 F.2d at 537. Even Coleman's attorney admitted at oral argument that

the contract likely was not the best basis for awarding damages but argued we should defer to the bankruptcy court as a factfinder.

A salary contract is not an appropriate basis to use to calculate the value of misappropriated intellectual property here. *See id.* at 537-38 (stating the reasonable royalty standard measures the value of the intellectual property to person who misappropriated it); *cf. Carbo*, 166 F. App'x at 725 (holding that the value of the salary supported an award for breach of contract but not for a breach of fiduciary duty based on the misappropriation of a trade secret). Coleman's consulting contract does not measure the value of the intellectual property in this case to Mandel, who misappropriated the technology. It only measures the value of Coleman's services. Coleman bears the burden to show that the value of his salary is co-extensive with the value of any intellectual property created. *See Carbo*, 166 F. App'x at 725. Showing that intellectual property rights were assigned in exchange for that salary does not prove the value of any intellectual property that Coleman actually created or what intellectual property Mandel misappropriated. Moreover, we held in *Mandel I* that the assignment of Coleman's intellectual property rights to White Nile was void. 578 F. App'x at 385.

In addition, Mandel was not able to monetize any intellectual property that he misappropriated from Coleman. The SAQQARA project that Coleman created was not a working prototype. *In re Mandel*, 2015 Bankr. LEXIS 3310, 2015 WL 5737173 at *4. The evidence also shows that NeXplore decided not to create a search engine from scratch. *Id.* As such, Coleman's

salary does not reflect the value of his final work product or the value to Mandel from any use of Coleman's work product. Our case law allows flexibility, but the reasonable royalty method cannot be bent to fit that scenario.

V.

The majority opinion also does not support its conclusion that the award of damages to White Nile of $497,000 was proper. Both the bankruptcy court and district court failed to explain the basis for $300,000 of the award. The majority opinion concludes, however, that "[i]f Mandel's representation to Thrasher that he would invest $300,000 in White Nile can support this award, then the award may be upheld on this basis." However, the majority opinion never undertakes the analysis to make that determination; it only refutes Mandel's argument that benefit of the bargain damages are not available for fraud under Texas law. *See Formosa Plastics Corp. USA v. Presidio Engineers and Contractors, Inc.*, 960 S.W.2d 41, 49 (Tex.1998). The availability of a remedy does not equate to the entitlement to that remedy. Benefit of the bargain damages for fraud claims are only available in limited circumstances. *See, e.g., Haase v. Glazner*, 62 S.W.3d 795, 799 (Tex. 2001) (holding benefit of the bargain damages are not available if the claim is barred by the statute of frauds); *D.S.A., Inc. v. Hillsboro ISD*, 973 S.W.2d 662, 663 (Tex. 1998) (stating benefit of the bargain damages are not available for negligent misrepresentation claims). The majority opinion never explains whether Mandel's representation supports a claim for which benefit of the bargain damages are

available, and if available, whether that claim supports an award of damages to White Nile.

VI.

Today, we affirm an award of damages that uses damages models that cannot be justified by any reasonable inference from the evidence in this case. We give deference to the bankruptcy court as the fact-finder. But that deference only extends as far the credible evidence can support its findings. Here, there was no reasoned basis for the award that would merit deference. These models do not have credible evidence supporting them as a reasonable approximation of the intellectual property's value. The evidence of White Nile's value was too speculative to use as a reasonable approximation of the technology misappropriated. If anything, given the pre-existing management and capital-raising issues, the evidence indicated the company was valueless when the technology was misappropriated. Indeed, in the twelve years that the parties have been litigating over White Nile, no party has actually been able to monetize the technology.

Valuing intellectual property is hard, and the misappropriation of that technology is potentially as easy as a download to a flashdrive. The difficulty of determining a correct valuation methodology, however, does not excuse the burden to show that the technology's value rises above mere speculation and is based on just and reasonable inferences from the credible evidence. Our flexible and creative standard is not a license for pie-in-the-sky damages; rather, damages must be grounded both in theory and fact. Respectfully, I dissent.

NOT FOR PRINTED PUBLICATION

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

EWARD MANDEL,	§	
	§	
Appellant,	§	
	§	
v.	§	CIVIL ACTION
	§	No. 4:15-cv-715
STEVEN	§	
THRASHER, ET AL.,	§	JUDGE RON CLARK
	§	
Appellees.	§	VSL

MEMORANDUM OPINION ON APPEAL FROM BANKRUPTCY COURT

This matter, involving a dispute over the allowability of the proofs of claim filed by Steven Thrasher and Jason Coleman ("Claimants") in the bankruptcy court below, is before this court yet again. The Claimants alleged that the total amount of their claims exceed $80 million, based on various causes of action arising out of a failed business venture. The debtor, Edward Mandel, objected to the claims, requesting that the bankruptcy court disallow the claims in their entirety.

Following a trial over twelve nonconsecutive days in a four-month span, the bankruptcy court concluded that the Claimants had established some of their causes of action against Mandel, including breach of

contract, fraud, breach of fiduciary duty, and misappropriation of trade secrets. On September 30, 2011, the bankruptcy court entered an Order awarding $1,000,000 to Thrasher, $400,000 to Coleman, and $300,000 to White Nile in compensatory damages, as well as $1,500,000 in attorney's fees ("September 30, 2011 Order").

Mandel and the Claimants appealed the September 30, 2011 Order. This court affirmed that Order ("District Court Order"). Mandel and the Claimants appealed the District Court Order. The Fifth Circuit found that "Thrasher and Coleman did suffer some damage" but vacated the bankruptcy court's award of compensatory damages and directed the bankruptcy court to "either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record." Fifth Cir. Op'n, Dkt. # 21-6, at p. 23.[1]

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[1] During the pendency of the appeals of the September 30, 2011 Order, the bankruptcy court appointed a chapter 11 trustee for Mandel's bankruptcy estate. The chapter 11 trustee requested approval of a settlement agreement allowing the claims of Thrasher and Coleman against the bankruptcy estate in the amounts set forth in the September 30, 2011 Order. The bankruptcy court entered an order approving the settlement agreement on November 6, 2013. On December 19, 2014, the bankruptcy court entered an order granting Mandel's motion to convert his case to a chapter 7 case.

On September 30, 2015, the bankruptcy court entered its Memorandum Opinion and Order on Remand ("Memorandum Opinion on Remand"), in which the bankruptcy court awarded Thrasher $1,000,000 in compensatory damages, awarded Coleman $400,000 in compensatory damages, and denied Mandel's request to vacate the bankruptcy court's prior award of attorney's fees. Claimants filed a Motion to Reconsider, arguing that the Fifth Circuit broadly vacated and remanded the award of compensatory damages as to all three claimants, including White Nile, and requesting the bankruptcy court to issue supplemental findings and conclusions with respect to the compensatory damages previously awarded to White Nile. On March 23, 2016, the bankruptcy court entered its Order Denying Claimants' Motion for Reconsideration ("Order Denying Reconsideration"), in which it held that the Fifth Circuit vacated only the

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The amount of the claims of Thrasher and Coleman has been settled with the estate. However, the amount of compensatory damages at issue here may still be relevant in the event that the bankruptcy court denies Mandel a discharge under 11 U.S.C. § 727 or finds that his debts to the claimants are nondischargeable in bankruptcy under 11 U.S.C. § 523. *See also In re Mandel*, 641 F. App'x 400, 405 (5th Cir. 2016) (holding that Mandel, as debtor, has standing to appeal the bankruptcy court's Claim Allowance Order until and unless the bankruptcy court discharges the debt that is the subject of the Claim Allowance Order). At this time, the bankruptcy court has not yet issued a ruling on the Discharge Complaint.

compensatory damages awards to Thrasher and Coleman, and not the award to White Nile. In the Order Denying Reconsideration, the bankruptcy court also stated that in the event it had misread the Fifth Circuit opinion, it would increase White Nile's compensatory damages award from $300,000 to $497,000.

Appellant Edward Mandel ("Mandel") and Cross-Appellants Jason Coleman ("Coleman"), Stephen Thrasher, individually ("Thrasher"), and Stephen Thrasher derivatively on behalf of White Nile Software Inc.[2] appeal the bankruptcy court's Memorandum Opinion on Remand. Cross-Appellants also appeal the bankruptcy court's Order Denying Reconsideration. For the reasons that follow, the bankruptcy court's Memorandum Opinion on Remand and Order Denying Reconsideration are reversed in part. The bankruptcy court's compensatory damages award to White Nile is increased from $300,000 to $497,000. The bankruptcy court's Order Denying Reconsideration and Memorandum Opinion on Remand are affirmed in all other respects.

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[2] MaddenSewell, LLP and the Law Offices of Mitchell Madden join in the cross-appeal as partial assignees of the Thrasher claims. For simplicity, Thrasher, MaddenSewell, LLP, and the Law Offices of Mitchell Madden are referred to as "Thrasher" when bringing claims in Thrasher's individual capacity, and they are referred to as "White Nile" when bringing claims on behalf of White Nile.

I. FACTUAL BACKGROUND

The record in the bankruptcy case below is one of the lengthiest records in the history of the United States Bankruptcy Court for the Eastern District of Texas. The main proceeding and its many adversary proceedings have spun several appeals. The facts that pertain to this appeal are as follows.

Thrasher, an intellectual property attorney, met Mandel in 2001, and the two soon became friends. In May 2005, Thrasher thought of an idea for a new kind of search engine. Mandel represented to Thrasher that he had expertise with internet databases that would be used to store an index for a search engine and that he was familiar with database search engines. Mandel and Thrasher signed non-disclosure agreements.

Subsequently, Thrasher submitted a provisional patent application, entitled "System, Methods, and Devices for Searching Data Storage Systems and Devices" to the United States Patent and Trademark Office on July 2, 2005. Thrasher is the only inventor listed on this application.[3]

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[3] On August 29, 2005, Thrasher filed a second provisional patent application entitled "System, Methods, and Devices for Searching Data Storage Systems and Devices," and again listed himself and only himself as the inventor on the application. On December 13, 2005, Thrasher submitted a third provisional patent application to the USPTO, entitled "Real-Time

Mandel and Thrasher formed White Nile to develop the search engine. Mandel represented that he would pay for the development of a prototype of the search engine, which they anticipated would cost $300,000. Mandel, through his attorney at the time, filed articles of incorporation with the Texas Secretary of State on July 13, 2005. These articles named Thrasher and Mandel as directors of White Nile.

In August 2005, Thrasher obtained a trademark for White Nile. In the same month, Thrasher signed a consulting agreement with White Nile that named him co-founder, inventor, and chief executive officer. In October 2005, Mandel signed a consulting agreement with White Nile, naming him co-founder and president. In the agreement, Mandel also assigned White Nile any "patentable ideas." Thrasher assigned his intellectual property relating to certain search-engine technology to White Nile.

Mandel and Thrasher met with representatives of Meaningful Data Solutions ("MDS"), who agreed to help develop software for the White Nile search engine. MDS anticipated that the project would cost $216,500, and Mandel told Thrasher that he would pay that amount.

Thrasher and Mandel also signed a Unanimous Consent, naming Mandel as president and treasurer of White Nile, and Thrasher as its chief executive officer and secretary. Thrasher and Mandel were also

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Search Visualization," listing only himself and Jason Coleman as inventors on the application.

each to receive 26 million shares of White Nile in exchange for the following consideration: (a) Thrasher assigning his then-existing provisional patent application as well as any future intellectual property to White Nile; and (b) Mandel developing White Nile's search engine at Mandel's expense by December 31, 2005.

Mandel and Thrasher also met with Paul Williams. Mandel and Williams led Thrasher to believe that Williams was a licensed broker/dealer at Hughes-Roth Capital Markets and that White Nile was retaining Hughes-Roth Capital Markets to secure Williams's services. This was a lie.

White Nile retained Jason Coleman as chief creative officer and co-founder to develop a graphic representation of what the search engine might look like. The agreement provided that Coleman would receive an annual salary of $133,000, as well as 0.5% equity interest in White Nile, but Coleman agreed to defer his salary for the first several months while White Nile was seeking investors. Coleman also assigned his work product, including patentable ideas, to White Nile. Coleman began working full time for White Nile in October 2005. He referred to his work on a prototype as the SAQQARA project. In addition, he and Thrasher filed for and received a patent, referred to by the parties as the '802 patent, during this time. Mandel assured Coleman that White Nile was in good financial shape. Coleman completed his work as promised under the agreement but never received an equity interest.

When Mandel realized that White Nile was unable to reach an agreement with MDS, Mandel represented to Thrasher that a friend's father, Eduardo Carrasco, had political connections in the Philippines that would allow White Nile to develop its search engine in the Philippines, which would save White Nile money. Mandel represented to Thrasher and Coleman that Eduardo had hired a team of individuals with PhDs to develop a prototype of White Nile's search engine in the Philippines. Mandel visited the Philippines in fall 2005 and represented to Coleman that he had met with the developers working for White Nile. Thrasher included these representations in a written presentation to potential investors.

Next, White Nile recruited Rod Martin, one of Thrasher's friends, to serve on White Nile's Board of Directors. Around the same time, White Nile hired Skinner Layne as an employee. Skinner convinced his parents, Eddie and Ellen Layne (the "Laynes"), to invest $300,000 in White Nile, in exchange for 75,000 shares of stock.

In November 2005, Thrasher, Mandel, and Coleman traveled to Philippines, where Thrasher and Coleman learned that no one had been working on While Nile's search engine and that no one in the Philippines had expressed an interest in investing money in White Nile. In fact, Mr. Carrassco had only expressed interest in being *paid* in excess of $1 million in return for providing services to White Nile. During the trip, Thrasher and Coleman began to discover that Mandel was not very knowledgeable about the type of database or programming necessary for the

search engine to function. During the visit, Coleman, Thrasher, and Mandel discussed changing the name of White Nile. One potential name was "NeXplore," but they did not reach an agreement. Ultimately, Mr. Carrasco declined to become involved with White Nile. Subsequently, Mandel recruited Joseph Savard to become White Nile's Chief Technology Officer.

On December 15, 2005, Williams held an investor meeting in Arkansas using Coleman's demonstratives. The following day, Thrasher discovered that Williams was not a licensed broker. By this point, Mandel and Thrasher's relationship was disintegrating. It became evident that Mandel did not intend to contribute any of his own funds to White Nile despite his previous representations.

Mandel and Skinner formed a new company called NeXplore. Around the same time, Mandel began denying that Martin was a member of White Nile's board of directors. Mandel recruited Savard to work for NeXplore at some point during late December or early January 2006. NeXplore offered Savard the same job title and salary as White Nile. Mandel also recruited Williams to work for NeXplore, where Williams would perform the same advisory role as he had at White Nile.

At that time, Thrasher submitted instructions to White Nile's bank to make a payment to his father to reimburse him for hardware he had purchased for White Nile. Around the same time, Mandel also submitted instructions to the bank, requesting the bank to place all of the funds in White Nile's account into a new account under Mandel's sole control. Due to the

conflicting statements, the bank froze the account. That account held $197,000, the remaining balance of the $300,000 that the Laynes had invested in White Nile.

Thrasher and Martin met with Mandel to discuss the situation. Mandel did not tell Thrasher or Martin that he was forming NeXplore, or that Mandel had asked the Laynes to move their invested funds from White Nile to NeXplore. Later, Thrasher and Martin discovered that Mandel had convinced the Laynes to move their $197,000 invested in White Nile to NeXplore, and that NeXplore had received $286,500 from Arkansas Investment, a limited liability company formed by the Laynes after the December 15, 2005 White Nile presentation.

In January 2006, Mandel, Williams, and Skinner signed corporate documentation purporting to remove Thrasher from White Nile's board of directors as well as a document declaring that White Nile was no longer a going concern. The document also purported to release everyone from various non-competition and non-disclosure agreements they had signed with White Nile. The document did not, however, release Thrasher from the assignment of his intellectual property to White Nile, but Mandel did not seek to preserve or protect White Nile's intellectual property.

II. PROCEDURAL BACKGROUND

A. Mandel sparks litigation in state court.

In January and February 2006, Coleman approached Mandel and Thrasher seeking payment for work performed for White Nile. Coleman requested a

cash payment of $38,791.66. Thrasher agreed to mortgage his house to pay his half of the amount. Mandel did not offer to make any payments to Coleman. Instead, Mandel caused White Nile to sue Coleman for allegedly breaching his consulting agreement and attempting to extort money from White Nile. Coleman and Thrasher asserted counterclaims against Mandel for breach of fiduciary duty, breach of contract, conversion, theft of corporate opportunities, and theft of trade secrets. In late 2006, Coleman began working on the '802 patent again by refining and extending its inventions, among other things. The PTO issued a patent to Thrasher and Coleman, which NeXplore unsuccessfully challenged.

Mandel, Skinner, and Skinner's father (Eddy) marketed NeXplore to potential investors in 2006 and early 2007. During this time, Mandel and others raised approximately $2.5 million for NeXplore. On June 21, 2007, the State of Arkansas Securities Department issued a Cease and Desist Order that detailed NeXplore's investment scheme and funds. During this time period, NeXplore was unsuccessful at developing a usable product. Savard was unable to create the software that Mandel envisioned, and Mandel and the programmers disagreed about NeXplore's advertising. Savard's and Mandel's relationship began to deteriorate, and Savard left NeXplore in November 2006. The relationship between Skinner and Mandel also deteriorated, and Skinner left NeXplore almost a year later.

On October 17 and 19, 2007, the parties in the state court litigation (Mandel, Coleman, Thrasher) reached a tentative settlement, in which Thrasher

and Coleman were to receive $450,000 paid in installments or if the payments were not made, an agreed judgment of $900,000. The settlement also provided for a royalty fee of two percent of NeXplore's gross revenue for five years in return for agreement to license their payments to NeXplore. They announced the settlement in open court, but Mandel later withdrew from the settlement. Thrasher and Coleman attempted to enforce the contract by, among other things, asserting claims against Mandel for breaching the agreement. The state court eventually entered a summary judgment order holding that the settlement agreement was unenforceable.

B. Mandel files for bankruptcy.

On January 25, 2010, Mandel filed a petition for Chapter 11 bankruptcy in the Eastern District of Texas. Mandel listed the value of his 33 million shares in NeXplore as "unknown" in his bankruptcy schedules. Thrasher submitted a general unsecured claim in the amount of $56 million on behalf of himself and derivatively on behalf of White Nile, and Coleman submitted a general unsecured claim in the amount of $25 million. (Claim Nos. 20, 32). In their proofs of claim, Thrasher, Coleman, and White Nile asserted the following claims: (1) theft or misappropriation of trade secrets in violation of Texas Theft Liability Act (Texas Civil Practice and Remedies Code §§ 134.001, *et seq.*); (2) breach of contract; (3) breach of fiduciary duty; (4) fraud and fraudulent inducement; and (5) oppression of shareholder rights. Mandel objected to all of these claims and asserted various counterclaims against both Thrasher and Coleman.

The bankruptcy court tried Mandel's objections to the claims of Thrasher, Coleman, and White Nile over eleven nonconsecutive days from November 2010 to February 2011. The bankruptcy court found Mandel liable for (1) theft or misappropriation of trade secrets; (2) breach of contract; (3) breach of fiduciary duty; (4) fraud and fraudulent inducement; (5) oppression of shareholder rights; and (6) conspiracy. The bankruptcy court awarded $400,000 in damages to Coleman, $1,000,000 to Thrasher, and $300,000 to White Nile. The bankruptcy court did not award any party exemplary damages. The bankruptcy court awarded Thrasher and Coleman $1.5 million in attorneys' fees and $255,989.48 in costs. The bankruptcy court denied all of Mandel's counterclaims. Mandel appealed the bankruptcy court's decision, and Thrasher and Coleman cross-appealed.

C. The Fifth Circuit remands the case to the bankruptcy court for an explanation of its award of damages to Thrasher and Coleman.

On appeal, this court affirmed the bankruptcy court's decision in its entirety. Both Mandel and the Claimants appealed the District Court Order. On August 15, 2014, the Fifth Circuit affirmed in part the District Court Order, vacated the award of compensatory damages, and remanded to the bankruptcy court for further proceedings consistent with its opinion. The Fifth Circuit reasoned that

> [in] the present case, the bankruptcy court did not make clear the theory upon which it was relying to award damages nor did it explain the evidence

> supporting the amount of damages. While it is true that uncertainty should not preclude recovery in a trade secrets misappropriation case, Thrasher and Coleman were required to produce enough evidence to show "the extent of the damages as a matter of just and reasonable inference, even if the result be only approximate." From the bankruptcy court's opinion, we do not see an approximation—only numbers chosen by the court. . . . Even under our "flexible approach" to damages in a misappropriation of trade secrets case, the damages awarded must have some rational relationship to the evidence presented. . . .
>
> Because neither the bankruptcy court nor the district court explained the evidentiary and legal basis for the damages awarded, we are unable to review the damages adequately. Because, however, Thrasher and Coleman did suffer some damage, we vacate the award of compensatory damages and remand to the bankruptcy court so that it may either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record.

Fifth Cir. Op'n, Dkt. # 21-6, at p. 22-23.

D. On remand, the bankruptcy court further explains its award of damages.

On remand, the parties submitted additional briefing on the issue of damages but declined an opportunity to present further evidence. Based upon the parties' briefing and the record in the case, on September 30, 2015, the bankruptcy court entered its Memorandum Opinion and Order on Remand. This court will discuss the award to Thrasher first, followed by the award to Coleman, then the attorney's fee award, and finally the award to White Nile.

1. Award to Thrasher

The bankruptcy court awarded $1,000,000 in compensatory damages to Thrasher for misappropriation, $300,000 of which was also attributable to fraud. The bankruptcy court held that Thrasher's damages for breach of contract, breach of fiduciary duty, and conspiracy were likewise subsumed in the damages award for misappropriation. The bankruptcy court supported its award of damages to Thrasher with the following explanation:

> Shareholder oppression cannot be a source of compensatory damages (as discussed by the Fifth Circuit). With respect to the remainder of his claims, Thrasher argued that his actual damages overlapped with, and were subsumed by, the damages arising from Mandel's misappropriation of trade secrets. The bulk of Thrasher's damages

argument at trial was how to measure the damages, if any, arising from Mandel's misappropriation. Thrasher primarily relied on the testimony of his expert, Brad Taylor, to support an award of $56 million (or more).

As noted by the Fifth Circuit:

> Damages in misappropriation cases can take several forms: the value of plaintiff's lost profits; the defendant's actual profits from the use of the secret; the value that a reasonably prudent investor would have paid for the trade secret; the development costs the defendant avoided incurring through misappropriation; and a reasonable royalty.

Wellogix, Inc. v. Accenture, L.L.P., 716 F.3d 867, 879 (5th Cir. 2013) (quoting *Bohnsack v. Varco, L.P.*, 668 F.3d 262, 280 (5th Cir. 2012)). In this case, the nature of the misappropriation made it difficult to prove the amount of damages with certainty. Such uncertainty does not preclude the recovery of compensatory damages. Nonetheless, Thrasher and Coleman were required to establish the extent of their damages

as a matter of just and reasonable inference. *See Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867, 879 (5th Cir. 2013).

White Nile and NeXplore never made a profit. White Nile only had one investor—the Laynes. Inasmuch as the Laynes were the parents of an employee, Skinner, their investment was not an arms-length transaction. Further, the Laynes had received inaccurate information about White Nile when they invested, and Mandel returned the Laynes' money to them when he took over White Nile. White Rock Capital refused to invest in White Nile in its early developmental stage. Eduardo Carrasco also refused to invest in White Nile and placed no value on an equity interest in White Nile.

With respect to development costs, Thrasher estimated White Nile would require investments of between $6 million and $12 million to bring a usable product to market. Carrasco requested more than $1 million to begin developing Thrasher's idea for a search engine. The development never occurred. At the time Mandel misappropriated White Nile's trade secrets, the search engine had not been developed beyond the alleged "prototype" stage. Neither White Nile nor NeXplore developed a

usable product that could be brought to market. Under these circumstances, the avoidance of development costs by Mandel through misappropriation cannot be an appropriate measure of damages.

Thrasher and Coleman argued in closing that some evidence of a reasonable royalty can be found in the settlement agreement announced in state court. In state court, Thrasher, Coleman and Mandel announced that they had reached an agreement to a judgment of $900,000 in favor of Thrasher and Coleman. They announced that Thrasher and Coleman would not seek to enforce this judgment provided they received cash payments in the total amount of $450,000. In addition to cash payments, the parties agreed to a "royalty fee" of two percent of NeXplore's gross revenue for five years, payable quarterly, with a minimum quarterly payment of $2,500. Although NeXplore never created a product that could have generated revenue, the announced settlement agreement suggests an appropriate damages award would be $1,010,000, consisting of the $900,000 agreed judgment, a royalty fee of $30,000 for three years of minimum quarterly payments of $2,500 per quarter, and a royalty fee of $80,000 arising

> from a two-year license Mandel testified NeXplore signed in October 2010.[5]
>
> In their closing arguments, Thrasher and Coleman also advanced a "lost asset" theory of recovery. They argued that White Nile had a fair market value of $56 million based on Mr. Taylor's expert testimony. They further argued they had lost the value of this asset as a result of Mandel's conduct.
>
> In reaching his conclusion of value, Taylor selected 34 comparable companies focused on similar technology and business characteristics ranging in value from $1 million to $344 million. Taylor's report included the value of some of the largest internet search companies, including Google, Yahoo, and Ask Jeeves. While Mr. Taylor used these companies to run statistical models, he did not adjust for risks specific to White Nile.[6] As Vanessa Fox testified at trial, many internet companies

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[5] As previously discussed, the parties ultimately did not consummate the announced settlement agreement. (footnote in original).

[6] Taylor prepared his expert report in May 2009 in support of Thrasher and Coleman's claims in the state court litigation. He supplemented his report on October 22, 2010, which was shortly before trial began in this Court. In his supplemental report, Taylor stated that he believed White Nile's value was substantially

> fail—even companies with significantly more expertise and venture capital than White Nile.[7] The claimants' own expert, Dr. Gilbert Amelio, testified that even when companies succeed in attracting investments from venture capitalists, in his experience, approximately 80% of those companies will fail.
>
> Significantly, the quality of White Nile's executive team was not a factor included in Taylor's analysis. Dr. Amelio testified that the information would have been important to a decision to invest in White Nile. All companies are people companies, according to Amelio, and they succeed only if their executive team is capable of transforming an idea into a viable business. White Nile's executive team did not have this ability.

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higher than $56 million based on Dr. Amelio's expert report as well as the issuance of patents to Thrasher and Coleman. Dr. Amelio, however, had relied upon Mr. Taylor's expert report in reaching his conclusions about the value of White Nile. (footnote in original).

[7] One of the internet companies referenced by Taylor in his expert report had failed by the time of trial, according to the testimony of Ms. Fox. Ms. Fox also testified, credibly, that the Venn diagram display of search results envisioned by Thrasher was not astonishingly unique and had been discussed in relevant literature for a number of years. (footnote in original).

Value, particularly in start-up companies, is dynamic. As Dr. Amelio testified, it changes with how efficient the company is at executing its business plan. Thrasher also recognized that value can change as competitors bring their own products to market.

In this case, even before the misappropriation occurred, White Nile was having difficulty raising the funds necessary for development costs in sufficient time to beat competitors. White Nile's dysfunctional executive team meant it was never a highly valuable company. Its value declined precipitously as the relationship between Mandel and Thrasher deteriorated, litigation ensued, and time passed. Dr. Amelio testified, credibly, that a nascent company engaged in litigation is not attractive to venture capitalists. Taking into account the significant rate of failures, the dysfunctional executive team, the lack of a functional product, NeXplore's abandonment of its efforts to create its own search engine, and the lack of profits by White Nile and NeXplore, it appears that White Nile's value is closest to the lowest valued company on Tay-

> lor's list of companies, which is $1 million.[8]
>
> Thrasher and Coleman also argue an alternate theory of damages based on the benefit Mandel received from his misappropriation, namely a 55% interest in NeXplore.[9] According to the claimants' expert, Brad Taylor, the market capitalization of NeXplore was $47.17 million at the high end and $1.67 million at the low end—thus indicating a range of $25.0 million to $920,000 for the value of Mandel's 55% interest. White Nile was a nascent search market company with no financing, no usable product, no customers, no profit, and a dysfunctional executive team who engaged in litigation over control of White Nile and its intellectual property. This Court, therefore,

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[8] This value is remarkably similar to the damages arrived at using the settlement announced by the parties in state court. (footnote in original).

[9] Although Thrasher and Coleman complain about the salary and other benefits Mandel received from NeXplore, the trial record did not establish that Mandel received his salary or benefits on account of misappropriation. Indeed, Mandel worked for NeXplore for a number of years—even after NeXplore abandoned any attempt to create a search engine of its own. (footnote in original).

> again looks to the low end of the market capitalization spectrum for NeXplore in calculating damages for misappropriation, which is $920,000.
>
> In determining damages, the Court also considered the amount of investments NeXplore secured using ideas and materials very similar to those prepared for White Nile. Setting aside the fact that NeXplore's recruitment of investors during 2006 and 2007 violated applicable laws, NeXplore raised approximately $2.5 million from investors before abandoning its attempt to create its own search engine. This would indicate a value of $1,375,000 attributable to Mandel's 55% interest in NeXplore.
>
> The Court, considering all of the evidence presented at trial, concludes that Thrasher incurred damages as a result of Mandel's misappropriation in the amount of $1 million. Thrasher's damages for misappropriation are co-extensive with and subsume the damages he incurred on account of his other compensable claims against Mandel.

Mem. Op'n on Rem., Dkt. # 21-7, at p. 13-18.

2. Award to Coleman

Second, the bankruptcy court awarded $400,000 in compensatory damages to Coleman for his claims for

fraud, conspiracy, and misappropriation of trade secrets. The bankruptcy court supported its award of damages to Coleman with the following explanation:

> With respect to Coleman, an appropriate measure of damages is not based on the value of White Nile, but on what Coleman would have received under the consulting agreement for the services he rendered, including developing the SAQQARA project and the 802 patent. In contrast to Thrasher, Coleman's interest in White Nile was primarily as a paid consultant, and his arguments for damages in the pre-trial order and in closing referenced his expectations under the consulting agreement. If matters had proceeded as initially planned under the consulting agreement, his intellectual property would have remained assigned to White Nile.
>
> Coleman's consulting agreement, as previously discussed, provided Coleman would receive a salary of $133,000 for three years, with a possibility of an extension of the consulting agreement to future years, plus warrants for an approximately 0.5% equity interest in White Nile. Based on the Court's valuation of White Nile, the value of a 0.5% an [sic] equity interest in White Nile is approximately equal to the amount paid Coleman. Coleman's damages for

> misappropriation are subsumed by and co-extensive with his fraudulent inducement damages. Thus, considering all of the evidence admitted at trial, the Court determines that Coleman incurred damages in the amount of $400,000 as a result of Mandel's misappropriation and fraudulent inducement.

Mem. Op'n on Rem., Dkt. # 21-7, at p. 18-19.

3. Award of Attorney's Fees

Third, the bankruptcy court denied Mandel's request to vacate its prior award of attorney's fees. The bankruptcy court reasoned:

> On appeal, Mandel challenged the award of attorneys' fees to Coleman. The Fifth Circuit expressly rejected Mandel's challenge in its opinion. The only issue vacated and remanded to this Court is the award of compensatory damages of $1,000,000 to Thrasher and $400,000 to Coleman. This Court, therefore, declines to vacate the award of attorney's fees.

Mem. Op'n on Rem., Dkt. # 21-7, at p. 11-12.

E. The bankruptcy court denies a Motion to Reconsider with respect to its prior award to White Nile.

Coleman, Thrasher, and White Nile filed a Motion to Reconsider with the bankruptcy court, arguing that it erred in failing to issue supplemental findings and conclusions with respect to the $300,000 in compensatory damages previously awarded to White Nile. The bankruptcy court stated that it was unconvinced that the Fifth Circuit intended for it to re-examine the compensatory damages previously awarded to White Nile, but nonetheless addressed the award in a detailed opinion, noting that in the event that the bankruptcy court had misread the Fifth Circuit's opinion, the court would increase the $300,000 award to White Nile by $197,000, for a total award of $497,000 in compensatory damages. Order Denying Recon., Dkt. # 14-1, at p. 81. Relevant to this Opinion, the bankruptcy court explained:

> Mandel breached his duty of loyalty to White Nile by diverting the remaining $197,000 of the investment made by Skinner's parents. Mandel thereby deprived White Nile of investment opportunities with respect to those funds. However, with the exception of the $197,000 transferred from White Nile's bank account, White Nile failed to show that it had a legitimate expectation in the investments received by NeXplore or that White Nile would have received the investments but for Mandel's breaches of his fiduciary duty.

> White Nile did not establish that Skinner's parents would have invested additional funds with it. White Nile also did not establish that any of the other investors Skinner and his father helped to recruit to invest in NeXplore would have invested in White Nile. The Court, therefore, concludes that White Nile is not entitled to an award of damages measured by the Laynes' investment of $286,500 in NeXplore or any of the other investments in NeXplore.

Order Denying Recon., Dkt. # 14-1, at p. 80-81.

III. ISSUES PRESENTED

Mandel raises the following issues on appeal:

(1) whether the bankruptcy court, on remand from the Fifth Circuit, erred in awarding compensatory damages to Thrasher in the amount of $1,000,000;

(2) whether the bankruptcy court, on remand from the Fifth Circuit, erred in awarding compensatory damages to Coleman in the amount of $400,000; and if so,

(3) whether the bankruptcy court erred in awarding, or refusing to set aside the attorney's fees and costs awarded to Thrasher and Coleman.

Thrasher, Coleman, and White Nile raise the following issues on cross-appeal:

(1) whether the bankruptcy court erred in determining that the Fifth Circuit did not vacate the bankruptcy court's award of $300,000 in compensatory damages to White Nile;

(2) whether the bankruptcy court erred by failing to order disgorgement of the salary and other benefits Mandel received from NeXplore from 2006 through 2009 in violation of his duty of loyalty to White Nile; and

(3) whether the bankruptcy court erred by failing to award White Nile damages for the breaches of fiduciary duty found against Mandel regarding the $286,500 the Laynes invested in NeXplore arising out of the White Nile investor presentation in December 2005.

IV. STANDARD OF REVIEW

District courts review bankruptcy rulings and decisions under the same standards employed by federal courts of appeal: a bankruptcy court's findings of fact are reviewed for clear error, and its conclusions of law are reviewed de novo. *In re Nat'l Gypsum Co.*, 208 F.3d 498, 504 (5th Cir. 2000). A finding of fact is clearly erroneous only if, based on all of the evidence, the district court is left "with the definite and firm conviction that a mistake has been made." *Robertson v. Dennis*, 330 F.3d 696, 701 (5th Cir. 2003). "This standard plainly does not entitle a reviewing court to reverse the finding of the trier of fact simply because it is convinced that it would have decided the case differently." *Anderson v. City of Bessemer City, N.C.*, 470 U.S. 564, 573, 105 S. Ct. 1504, 84 L. Ed. 2d 518 (1985).

"Where there are two permissible views of the evidence, the factfinder's choice between them cannot be clearly erroneous." *In re Renaissance Hosp. Grand Prairie Inc.*, 713 F.3d 285, 294 (5th Cir. 2013). Due regard must be given to the opportunity of the bankruptcy court to judge the credibility of the witnesses. FED. R. BANKR. P. 8013; *Matter of Herby's Foods, Inc.*, 2 F.3d 128, 131 (1993).

V. ANALYSIS OF POINTS ON APPEAL

A. The bankruptcy court did not err in awarding compensatory damages to Thrasher in the amount of $1,000,000.

Mandel argues that the bankruptcy court (1) erred in awarding Thrasher damages for fraud, breach of fiduciary duty, breach of contract, and misappropriation, and (2) erred in calculating the amount of those damages. On appeal, the Fifth Circuit vacated "only the [compensatory] damages award by the bankruptcy court," and remanded the issue of compensatory damages to the bankruptcy court solely so that the bankruptcy court could explain the evidentiary and legal basis for the amount of damages awarded to each party. Because the scope of the Fifth Circuit's remand was this specific, this court will determine only whether the bankruptcy court erred in calculating the amount of damages awarded to Thrasher.

Regarding the bankruptcy court's calculation of Coleman's damages, first, Mandel argues that the bankruptcy court erred in not adhering to the law of the case—in essence, Mandel argues that because the bankruptcy court rejected Thrasher's invitation to

base damages on the "lost asset" theory, Taylor's testimony, or evidence of NeXplore's fair market value in its initial Findings of Fact and Conclusions of Law (Dkt. # 21-4), the bankruptcy court is not adhering to the law of the case by then deciding to base its damages award on those theories on remand. "The law-of-the case doctrine posits that when a court decides upon a rule of law, that decision should continue to govern the same issue in subsequent stages in the same case." *Med. Ctr. Pharm. v. Holder*, 634 F.3d 830, 834 (5th Cir. 2011) (internal quotations and citations omitted). In other words, under the law of the case doctrine, "ordinarily an issue of fact or law decided on appeal may not be reexamined either by the district court on remand or by the appellate court on subsequent appeal." *United States v. Lee*, 358 F.3d 315, 320 (5th Cir. 2004) (internal quotations and citation omitted).

In this case, the Fifth Circuit did not affirm the bankruptcy court or the district court regarding the compensatory damages award. The Fifth Circuit vacated the bankruptcy court's award of compensatory damages and remanded this case to the bankruptcy court with instructions to explain how it arrived at its award. Therefore, anything that the bankruptcy court decided regarding compensatory damages in its initial Findings of Fact and Conclusions of Law is not the law of the case. The bankruptcy court did not err failing to adhere to those decisions. Mandel's appeal on this ground is overruled.

Second, Mandel argues that he bankruptcy court erred in basing damages awarded to Thrasher on the

failed state court settlement. Upon reading the entirety of the bankruptcy court's opinion, it is clear that the bankruptcy court did not base its damages award on the failed state court settlement. The bankruptcy court merely pointed out that Thrasher argued in closing that the failed state court settlement was some evidence of a reasonable royalty rate (Dkt. # 21-7, at p. 15) and that the ultimate amount of damages that the bankruptcy court awarded to Thrasher was similar to the agreed-upon sum in the failed state court settlement (Dkt. # 21-7, at p. 17 n.8). Mandel's appeal on this ground is overruled.

Mandel next argues that the bankruptcy court erred in basing damages on Mr. Taylor's range of values. Specifically, Mandel contends that the bankruptcy court did not account for White Nile's 80% chance of failure and that the bankruptcy court's choosing a number within the range of figures offered by Mr. Taylor was impermissible. It is clear from the bankruptcy court's opinion that the bankruptcy judge considered the dynamic value of start-up companies and the large percentage of internet companies that fail, even if almost everything goes in their favor. As the bankruptcy court stated, "[a]ll companies are people companies . . . and they succeed only if their executive team is capable of transforming an idea into a viable business," and "White Nile's executive team did not have this ability." Mem. Op'n on Rem., Dkt. # 21-7, at p. 7.

As discussed above, Mr. Taylor selected thirty-four comparable companies focused on technology and business characteristics similar to White Nile, which ranged in value from $1 million to $344 million. The

bankruptcy court accounted for White Nile's high chance of failure by determining that the value of White Nile was $1 million, the lowest valued company in Taylor's range. As the bankruptcy court noted,

> Taking into account the significant rate of failures, the dysfunctional executive team, the lack of a functional product, NeXplore's abandonment of its efforts to create its own search engine, and the lack of profits by White Nile and NeXplore, it appears that White Nile's value is closest to the lowest valued company on Taylor's list of companies, which is $1 million.

Mem. Op'n on Rem., Dkt. # 21-7, at p. 17. By taking into account White Nile's high chance of failure and dysfunctional team in choosing a value within Mr. Taylor's range of values, contrary to Mandel's contentions, the bankruptcy court did not merely pick a number. The bankruptcy court both relied on expert testimony to establish the range of values for similar companies and relied on expert testimony to choose a number within the range of values. *See Lamont v. Vaquillas Energy Lopeno Ltd., LLP*, 421 S.W.3d 198, 224 (Tex. App.—San Antonio 2013, no pet.) (stating that expert testimony is not required to prove lost profits in misappropriation of trade secrets case); *Main Bank & Tr. v. York*, 498 S.W.2d 953, 957 (Tex. App.—San Antonio 1973, writ ref'd n.r.e.) ("The rule is well settled that [expert] testimony is nothing but evidentiary, and is never binding on the trier of facts.

Thus, the factfinder is not cut off from exercising considerable personal judgment about how far such opinions are to be relied on.").

Mandel also argues that the bankruptcy court erred in basing damages on the value of NeXplore stock and in basing damages on the amounts raised by NeXplore. Mandel lists no case law in support of his arguments in this section. These arguments are therefore inadequately briefed and waived. *In re Bouchie*, 324 F.3d 780, 786 (5th Cir. 2003) ("As [appellant] cites no authority for this proposition, it is not adequately briefed and therefore waived.").

Assuming for the sake of argument that Mandel had adequately briefed this issue, the court would find Mandel's argument meritless. The bankruptcy court did outline Thrasher and Coleman's alternate theory of damages based on the benefit that they contend Mandel received from his misappropriation, namely a 55% interest in NeXplore, the value of NeXplore stock, and the amounts raised by NeXplore. However, the bankruptcy court stated that "the trial record did not establish that Mandel received his salary or benefits on account of misappropriation," as "Mandel worked for NeXplore for a number of years—even after NeXplore abandoned any attempt to create a search engine of his own." Mem. Op'n on Rem., Dkt. # 21-7, at p. 17 n.9. It is clear from this statement as well as the remainder of the Memorandum Opinion on Remand, that the bankruptcy court disregarded Thrasher's and Coleman's arguments regarding NeXplore's stock and value in determining its award of damages.

B. The bankruptcy court did not err in awarding compensatory damages to Coleman in the amount of $400,000.

Mandel argues that the bankruptcy court (1) erred in awarding Coleman damages for misappropriation, fraudulent inducement, and conspiracy and (2) erred in calculating the amount of those damages. On appeal, the Fifth Circuit vacated "only the [compensatory] damages award by the bankruptcy court," and remanded the issue of compensatory damages to the Bankruptcy Court solely so that the bankruptcy court could explain the evidentiary and legal basis for the amount of damages awarded to each party. Because the scope of the Fifth Circuit's remand was this specific, this court will determine only whether the bankruptcy court erred in calculating the amount of damages awarded to Coleman. Related to this argument, Mandel essentially contends that the bankruptcy court erred because the bankruptcy court's damages award is akin to benefit of the bargain damages, which are not available absent a contract.

As the Fifth Circuit noted,

> [d]amages in misappropriation cases can take several forms: the value of plaintiff's lost profits; the defendant's actual profits from the use of the secret, the value that a reasonably prudent investor would have paid for the trade secret; the development costs the defendant avoided incurring through misappropriation; and a reasonable royalty.

Wellogix, Inc. v. Accenture, L.L.P., 716 F.3d 867, 870 (5th Cir. 2013) (internal citations and quotations omitted). To apply "a reasonable royalty as to the measure of damages is to adopt . . . the fiction that a license was to be granted at the time of beginning the [misappropriation], and then to determine what the license price should have been." *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 537 (1974).[4] The proper standard in such a case is "the willing buyer-willing seller test: the primary inquiry is what the parties would have agreed upon, if both were reasonably trying to reach an agreement." *Id.* (internal citations omitted). The court must be mindful that every misappropriation of trade secrets case "requires a flexible and imaginative approach" to calculating damages and that "each case is controlled by its own peculiar facts and circumstances." *Id.* at 538 (internal citations and quotations omitted).

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[4] Thrasher and Coleman take issue with the bankruptcy court's use of *Univ. Computing Co.* as it relies, in part, on Georgia state law in outlining the legal standards on misappropriation of trade secrets. *See Univ. Computing Co.*, 504 F.2d at 534. The court finds *Univ. Computing Co.* applicable to this case because Georgia law, like Texas law, tracks the Restatement of Torts. *Compare id.* at 534 *with SW Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 712 (Tex. 2016). Moreover, in *Univ. Computing Co.*, the Fifth Circuit cites to Fifth Circuit law, as well as the law of several other circuits, in outlining how to calculate damages for misappropriation of trade secrets. 504 F.2d at 535-38.

In this case, Coleman assigned his intellectual property rights to White Nile in exchange for a $133,000 annual salary for three years, plus a 0.5% equity interest in White Nile. The agreement between Coleman and White Nile is some evidence of the value of Coleman's intellectual property rights, and thus, evidence of the value of White Nile's trade secrets, to Mandel. Three years of Coleman's annual salary of $133,000 would have totaled $399,000. The bankruptcy court valued White Nile at $1 million. 0.5 percent of $1 million is $5,000. In sum, the value of Coleman's salary plus the value of his equity interest in White Nile, as promised under the contract, is roughly $400,000.[5] When measured against the peculiar facts and circumstances of this case, valuing the damages to Coleman for Mandel's misappropriation of Coleman's trade secrets by determining the value of Coleman's initial contract with White Nile fits within the flexible and imaginative approach used to calculate damages in a case like this one, as condoned by the Fifth Circuit in *Wellogix*. 716 F.3d at 870. Mandel's appeal on this ground is overruled.

C. The bankruptcy court did not err in awarding attorney's fees to the Claimants.

Because this court affirms the bankruptcy court's award of compensatory damages to Thrasher and Coleman, the court need not consider Mandel's argu-

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[5] This court may affirm the bankruptcy court's judgment on any grounds supported by the record. *See, e.g., Sobranes Recovery Pool I, LLC v. Todd & Hughes Constr. Corp.*, 509 F.3d 216, 221 (5th Cir. 2007).

ment that there can be no award of attorney's fees absent an award of damages. *See also* Fifth Cir. Op'n, Dkt. # 21-6, at p. 24 ("The bankruptcy court did not abuse its discretion in awarding these [attorney's] fees."). Mandel's appeal on this ground is overruled.

VI. ANALYSIS OF POINTS ON CROSS-APPEAL

A. The bankruptcy court erred in holding that the Fifth Circuit did not vacate the bankruptcy court's compensatory damages award to White Nile.

Thrasher and Coleman argue that the bankruptcy court erred in determining that the Fifth Circuit did not vacate and remand for further consideration the damages award to White Nile based upon Thrasher's derivative claims. Whether a lower court "faithfully and accurately applied" the instructions of the Fifth Circuit on remand is reviewed de novo. *Sobley v. S. Nat. Gas Co.*, 302 F.3d 325, 332 (5th Cir. 2002).

Thrasher brought claims against Mandel both individually and derivatively on behalf of White Nile. The Fifth Circuit affirmed the bankruptcy court's conclusion that "Thrasher, on behalf of White Nile, should prevail on his claims for breach of contract, breach of fiduciary duty, and fraud." Bankr. Ct. Find. of Fact & Concl. of Law, Dkt. # 21-4, at p. 53, ¶ 99; Fifth Cir. Op'n, Dkt. # 21-6, at p. 15-19 (affirming findings of bankruptcy court on these claims); Fifth Cir. Op'n, Dkt. # 21-6, at p. 25 (vacating the bankruptcy court's award of compensatory damages and remanding the case to the bankruptcy court for an explanation of its damages award and affirming the bankruptcy court in all other respects).

In part A of section VI of the Fifth Circuit's opinion, the Fifth Circuit discusses the bankruptcy's award of "$1.7 million in actual damages," which includes the bankruptcy court's award of $300,000 to White Nile. Fifth Cir. Op'n, Dkt. # 21-6, at p. 19. At the end of part A, the Fifth Circuit stated that it was unable to adequately review the bankruptcy court's compensatory damages award due to the lack of explanation of the legal or evidentiary basis for the damages. Fifth Cir. Op'n, Dkt. # 21-6, at p. 23. The Fifth Circuit also noted that because it was clear that "Thrasher and Coleman did suffer some damage," it was vacating the award of compensatory damages and remanding the case to the bankruptcy court for further explanation. Fifth Cir. Op'n, Dkt. # 21-6, at p. 19. Even though the Fifth Circuit referred to only Thrasher and Coleman in this sentence, this court interprets the Fifth Circuit opinion as vacating and remanding the compensatory damages award to White Nile (in addition to the awards to Coleman and Thrasher, individually) because (1) Thrasher brought claims both individually and derivatively on behalf of White Nile; (2) the Fifth Circuit affirmed the findings of the bankruptcy court regarding the claims on which White Nile prevailed; and (3) the Fifth Circuit vacated the entire compensatory damages award. Thrasher's and Coleman's appeal on this ground is sustained.

B. The bankruptcy court did not err by not basing its award of damages on the disgorgement of Mandel's salary from NeXplore.

Coleman and Thrasher argue that the bankruptcy court should have awarded White Nile the remedy of

equitable disgorgement of all salary and other benefits Mandel received while working at NeXplore. Cross-Appellant Br., Dkt. # 19, at p. 31. "Under the equitable remedy of disgorgement or fee forfeiture, a person who renders service to another in a relationship of trust may be denied compensation for his service if he breaches that trust." *McCullough v. Scarbrough, Medlin & Assocs., Inc.*, 435 S.W.3d 871, 904-05 (Tex. App.—Dallas 2014, pet. denied) (citing *Burrow v. Arce*, 997 S.W.2d 229, 237 (Tex. 1999)). "The remedy essentially returns to the principal the value of what it paid for because it did not receive the trust or loyalty." *McCullough*, 435 S.W.3d at 905 (citing *Burrow*, 997 S.W.2d at 237-38). "The amount of disgorgement is within the trial court's discretion." *McCullough*, 435 S.W.3d at 905.

In *Burrow v. Arce*, former clients sued their attorneys alleging breach of fiduciary duty arising from settlement negotiations in a previous lawsuit. 997 S.W.2d at 232-33. The Supreme Court of Texas held that the clients did not have to prove actual damages to obtain forfeiture of the attorney's fees due to their attorneys breaching their fiduciary duty in the attorney-client relationship. *Id.* at 240. For example, in *Burrow*, the clients received a disgorgement award when their attorneys breached their fiduciary duty to those clients. 997 S.W.2d at 240. In *McCullough*, an employer received a disgorgement award after its employee breached its fiduciary duty to that employer. 435 S.W.3d at 905.

In this case, the bankruptcy court correctly noted that "all of the cases cited by White Nile require a nexus between the breach and the financial benefit or

profit." Order Denying Recon., Dkt. # 14-1, at p. 12. Likewise, the bankruptcy court correctly noted that "[i]n this case, . . . White Nile failed to establish a causal connection between the salary and other benefits Mandel received from NeXplore and Mandel's breaches of fiduciary duty to White Nile." Order Denying Recon., Dkt. # 14-1, at p. 12-13. NeXplore is not a party to the fiduciary relationship between Mandel and White Nile or between Mandel, Coleman, and Thrasher. As the bankruptcy court noted, NeXplore is an entity that is separate and distinct from White Nile. White Nile did not pay Mandel's NeXplore salary. Thrasher, Coleman, and White Nile have failed to establish any connection to the salary Mandel received from NeXplore and why that salary should be subject to disgorgement or forfeiture based on Mandel's breach of loyalty or fiduciary duty to White Nile. The bankruptcy court did not err in its conclusions on this topic, and Thrasher's, Coleman's, and White Nile's arguments on this ground are overruled.

C. The bankruptcy court did not err by not awarding White Nile the $286,500 that the Laynes invested in NeXplore.

Thrasher, Coleman, and White Nile argue that the bankruptcy court erred in failing to award White Nile the $286,500 that the Laynes invested in NeXplore because that money represents, in part, the value of the investment opportunities that Mandel conspired to transfer to NeXplore. The bankruptcy court based its decision not to award White Nile the $286,500 that the Laynes invested in NeXplore on the corporate op-

portunity doctrine. "A violation of the corporate opportunity doctrine occurs when an officer or director misappropriates a business opportunity that properly belongs to the corporation." *Alexander v. Sturkie*, 909 S.W.2d 166, 169 (Tex. App.—Houston [14th Dist.] 1995, writ denied) (citing *Int'l Bankers Life Ins. v. Holloway*, 368 S.W.2d 567, 576-78 (Tex. 1963)). "It arises where a corporation has a legitimate interest or expectancy in, and the financial resources to take advantage of, a particular business opportunity." *Alexander*, 909 S.W.2d at 169 (internal citation omitted).

In this case, the Laynes invested the $286,500 in NeXplore after an investor meeting with NeXplore. The bankruptcy court correctly noted that at trial, White Nile did not establish that the Laynes would have invested these funds in White Nile, nor did White Nile establish that any of the other investors that the Laynes recruited to invest in NeXplore would have invested in White Nile in any circumstance. White Nile therefore did not establish that it had a legitimate interest or expectancy in, or the financial resources to take advantage of, the Laynes' $286,500 investment, or any other investment in NeXplore. Thrasher's, Coleman's, and White Nile's appeal on this ground is overruled.

D. This court reverses the bankruptcy court's Order Denying Reconsideration and increases the bankruptcy court's award of compensatory damages to White Nile to $497,000.

As discussed above, this court finds that the Fifth Circuit reversed and vacated the entire compensatory damages award, including the bankruptcy court's award of $300,000 to White Nile. In denying Thrasher's, Coleman's, and White Nile's Motion for Reconsideration, the bankruptcy court held that in the event that it misread the Fifth Circuit's opinion, it would increase the $300,000 award to White Nile by $197,000, for a total award of $497,000 in compensatory damages ("Order Denying Reconsideration"). Order Denying Recon. Dkt. # 14-1, at p. 81. This court agrees. Mandel breached his duty of loyalty to White Nile by diverting the remaining $197,000 of the investment made by the Laynes, and in doing so, deprived White Nile of investment opportunities with respect to those funds, in violation of the corporate opportunity doctrine. The court therefore reverses in part the bankruptcy court's Order Denying Reconsideration and increases the amount of compensatory damages to White Nile by $197,000 for a total of $497,000.

VII. CONCLUSION

IT IS THEREFORE ORDERED that the Bankruptcy Court's March 23, 2016 Order Denying Reconsideration is **AFFIRMED IN PART** and **REVERSED IN PART**. The Bankruptcy Court's award to White Nile is increased from $300,000 to $497,000.

IT IS FURTHER ORDERED that the bankruptcy court's March 23, 2016 Order Denying Reconsideration and September 30, 2015 Memorandum Opinion and Order on Remand are affirmed in all other respects.

So **ORDERED** and **SIGNED** this 20 day of December, 2016.

/s/ Ron Clark

Ron Clark, United States District Judge

EOD
03/23/2016

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

IN RE:	§	
	§	
EWARD MANDEL,	§	CASE NO. 10-40219
	§	
DEBTOR	§	(Chapter 7)

MEMORANDUM OPINION AND ORDER ON CLAIMANT'S MOTION TO RECONSIDER

This matter is before the Court on remand from the Fifth Circuit. Steven Thrasher, White Nile Software, Inc., and Jason Coleman[1] seek reconsideration of this Court's memorandum opinion and order on remand pursuant to Federal Rule of Bankruptcy Procedure 9023. In its remand opinion, this Court issued supplemental findings and conclusions with respect to the compensatory damages previously awarded to Thrasher and Coleman. The claimants argue that this Court erred in failing to issue supplemental findings and conclusions with respect to the compensatory damages previously awarded to White Nile. They acknowledge that the Fifth Circuit did not discuss

[1] The motion is also brought by MaddenSewell LLP and the Law Offices of Mitch Madden as partial assignees from Thrasher.

White Nile's damages but, in their request for reconsideration, assert that the Fifth Circuit broadly vacated and remanded the award of compensatory damages as to all three claimants, including White Nile.[2]

Bankruptcy Rule 9023 adopts and applies Federal Rule of Civil Procedure 59 to bankruptcy cases and proceedings. Motions to alter or amend a judgment under Rule 59(e) "serve the narrow purpose of allowing a party to correct manifest errors of law or fact or to present newly discovered evidence." *Waltman v. Int'l Paper Co.*, 875 F.2d 468, 473 (5th Cir. 1989) (citations omitted). A court should not grant a Rule 59(e) motion unless there is: (1) an intervening change in controlling law; (2) new evidence not previously available; or (3) the need to correct a clear error of law or fact or to prevent a manifest injustice. *See, e.g., Schiller v. Physicians Resource Grp., Inc.*, 342 F.3d 563, 567 (5th Cir. 2003); *Russ v. Int'l Paper Co.*, 943 F.2d 589, 593 (5th Cir. 1991). Altering, amending, or reconsidering a judgment is an extraordinary measure, which courts should use sparingly. *See Southern Constructors Grp., Inc. v. Dynalectric Co.*, 2 F.3d 606, 611 (5th Cir. 1993) (noting that the standards applicable

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[2] Mandel initially opposed White Nile's motion for reconsideration on the grounds that this Court lacked jurisdiction to decide it in light of the parties' pending appeals of the memorandum opinion and order on remand. The district court disagreed with Mandel's argument. The district court has abated the appeals pending this Court's ruling on White Nile's motion for reconsideration.

to Rule 59(e) favor the denial of motions to alter or amend a judgment).

In this case, the claimants' base their motion for reconsideration on what they believe to be clear error by this Court in failing to address White Nile's compensatory damages on remand. This Court is convinced that the Fifth Circuit affirmed the compensatory damage award to White Nile in the amount of $300,000 and is unconvinced that the Fifth Circuit intended for it to re-examine the compensatory damages previously awarded to White Nile. However, in order to avoid the cost, delay, and frustration to the parties of ping-ponging between courts, in the event this Court did err in its reading of the Fifth Circuit's opinion, this Court will address White Nile's compensatory damages.

FINDINGS OF FACT

The Court incorporates the background section of the Fifth Circuit's decision. The Court also incorporates its prior findings of fact as confirmed by the Fifth Circuit and the supplemental findings and conclusions contained in its memorandum opinion and order on remand. To provide context, certain relevant facts are repeated below, together with additional facts — gleaned from the evidence admitted at trial — pertinent to this memorandum opinion.

This litigation arises out of the failure of White Nile Software, Inc. Thrasher, an intellectual property attorney, conceived of what he believed to be a new type of search engine that would use Venn diagrams to display the results of searches of all of the information available on the internet. He shared the idea

with Mandel in the summer of 2005. Mandel and Thrasher formed White Nile to develop and hold Thrasher's invention.

Mandel and Thrasher anticipated that what they referred to as a prototype of Thrasher's search engine would cost $300,000 to produce. Mandel promised to contribute $300,000 to White Nile in exchange for shares in the company. However, Mandel did not invest $300,000 in White Nile.

Thrasher was the chief executive officer and secretary for White Nile. Mandel was the president and treasurer. They each signed consulting agreements that described White Nile as having been organized to conduct business "in the field of internet searches, providing search results, local data searching and result, file organization systems including operating systems, delivering advertising and related activities."

White Nile hired Coleman in October 2005 to work on a graphic representation of what Thrasher's search engine would look like when complete. Coleman's consulting agreement with White Nile described him as its chief creative officer. Over the next several weeks, Coleman developed what he called a "prototype" to demonstrate how White Nile's search engine would work once developed. His "prototype" could not search the internet to produce real search results.

In November 2005, Joseph Savard was recruited to serve as White Nile's chief technology officer. Savard met with Mandel and Thrasher several times during November and December 2005. As Savard informed Mandel and Thrasher, creating a new search

engine to rival existing search engines like Google would be an enormous, and enormously expensive, task. Moreover, White Nile's timeline for creating a working prototype of a search engine was impossible to meet. The timeline for effecting White Nile's business plan was untenable.

Thrasher and Coleman worked together to develop technology for White Nile's search engine. Thrasher submitted two provisional patent applications during 2005 in which he was listed as the inventor. Thrasher filed a third provisional patent application on December 13, 2005 in which he and Coleman were listed as inventors.

In the consulting agreements Coleman and Thrasher executed with White Nile, they agreed to assign their inventions, including patentable ideas, to White Nile. Thrasher also executed a separate assignment agreement that required White Nile to timely prosecute the provisional patent applications. If White Nile failed to do so, Thrasher's assignment agreement provided that "all rights in the inventions or creations transferred to White Nile Software, Inc. are then void, and any rights remaining transfer back to me."

Early on, it became apparent that Mandel and Thrasher disagreed on the direction and business strategy of White Nile. Thrasher wanted to focus on creating a unique search engine while Mandel wanted to focus on creating a social networking platform. Tensions between Mandel and Thrasher escalated as they competed to control the direction of White Nile. Although White Nile obtained a $300,000 investment

on December 7, 2005, from the parents of one of its employees, it effectively ceased operations within weeks as Mandel maneuvered to "squeeze out" Thrasher.

While he was an officer of White Nile, Mandel began forming what would become NeXplore Corporation for the purpose of pursuing the direction and business model that he had presented to Thrasher and that Thrasher had rejected. Skinner Layne (whose parents had provided the sole investment in White Nile) reserved NeXplore.com as a domain name in December 2005. Mandel began recruiting several of White Nile's employees and consultants to join his new company, including Savard and Skinner, during December 2005. Mandel told Savard that NeXplore was just a name change. He also instructed Savard not to tell Thrasher or anyone outside of NeXplore that NeXplore intended to develop search engine technology.

Thrasher initially was unaware that Mandel was forming NeXplore. Mandel sent Savard to Thrasher's home to meet with Thrasher and review White Nile's patents and projects. Their meeting focused on generalities. Savard testified, credibly, that he never saw an algorithm or any source code for White Nile's search engine.

In January 2006, Mandel took control of the $197,000 remaining in White Nile's bank account and returned the funds to Skinner's parents. Skinner's parents, in turn, re-invested the funds in NeXplore. In February 2006, Skinner's parents invested an additional $286,500 in NeXplore through a company

they had formed. Skinner's parents never intended to invest additional funds in White Nile.

Savard liked Mandel's social networking concept, and he was enthusiastic about integrating a social networking platform with a search engine. NeXplore did not have the funds to build the infrastructure that would be necessary to create a new search engine. Savard testified, credibly, that he used an existing search engine and that he did not develop a unique search engine for NeXplore.

NeXplore filed and prosecuted a number of patent applications. However, White Nile, under Mandel's control, failed to timely prosecute the provisional patent applications filed by Thrasher. Therefore, the intellectual property that Thrasher had assigned to White Nile reverted to him.

NeXplore successfully raised millions of dollars during 2006 and 2007, attracting investors with descriptions of search engine technology and an interface similar to the technology and interface envisioned by White Nile. At least some of its fundraising violated applicable laws. On June 21, 2007, the State of Arkansas Securities Department entered a Cease and Desist Order against Mandel, Skinner, Skinner's parents, and others.

NeXplore became a publicly traded company, registered with the Securities and Exchange Commission ("SEC"), in March 2007. In 2007 and 2008, NeXplore issued a series of press releases that describe, among other things, management changes, efforts to market itself as a search destination, the launch of an advertising platform, the launch of a public beta version of

its search destination, and user growth. The last quarterly report NeXplore filed with the SEC was for the period ended September 30, 2007. NeXplore's quarterly report for that period does not include any plan to build the infrastructure for a new search engine as part of NeXplore's operations.

NeXplore paid Mandel an increasingly generous salary from 2006 through 2009. Despite raising millions of dollars, and the generous salary paid to Mandel, NeXplore never made a profit. NeXplore terminated its registration with the SEC in early 2008. By August 2010, a thin volume of NeXplore's shares were trading on the "Pink Sheets" exchange at $.30 per share. In his bankruptcy schedules, Mandel listed the value of his shares in NeXplore as "unknown."

Mandel, Skinner, Williams, Thrasher, Coleman, and White Nile have been engaged in litigation in various forums since 2006. Mandel filed this personal bankruptcy on January 25, 2010. Thrasher, Coleman, and White Nile each filed claims against his bankruptcy estate. The claimants alleged the total amount of Mandel's debt to them exceeded $80 million on the petition date based on various unliquidated causes of action arising out of White Nile's collapse. White Nile's proof of claim listed an unliquidated debt in an amount not less than $56,000,000 owed to it by Mandel.

Mandel objected to the allowance of their claims. His objection initiated a contested matter, *see* FED. R. BANKR. P. 9014, which this Court tried over several weeks. In addition, Thrasher, on his own behalf and

on behalf of White Nile, initiated a separate adversary proceeding during the claims objection trial. *See* FED. R. BANKR. P. 7001 *et seq*. Thrasher and White Nile sought to impose a constructive trust on Mandel's shares in White Nile and NeXplore, among other things, in the adversary proceeding.[3]

Vanessa Fox appeared at trial as an expert on search engine optimization. She reviewed documents from White Nile and NeXplore as well as NeXplore's website and White Nile's so-called prototype. She concluded, in a nutshell, that the technologies described in the documents were based on "naïve assumptions of how search worked." In her opinion, neither company offered a novel or unique technology that would "make a big impact in the search phase." Furthermore, in her opinion, White Nile did not have the type of expertise that would be necessary to develop a robust search engine.

At the time Fox reviewed NeXplore's website, NeXplore appeared to be using a meta-search engine. NeXplore obtained results from existing search engines, like Yahoo, and displayed them. In contrast to

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[3] On September 9, 2013, this Court issued a summary judgment denying the request for a constructive trust in the separate adversary proceeding. Thrasher's request for the imposition of a constructive trust was untimely. Moreover, as the Court explained in its decision, "even if Thrasher had timely asserted a claim for the imposition of a constructive trust, Thrasher has failed to show that he can trace the intellectual property he developed for White Nile to the estate's interest in the shares of NeXplore...."

NeXplore, White Nile did not have a website or any technology for her to review — Fox described Coleman's "prototype" as more of a commercial. Fox was not aware of any algorithms produced by White Nile for developing a search engine.

Two of the claimants' experts, Brad Taylor and Dr. Gilbert Amelio, testified that the quality of a start-up company's executive team is an important factor in determining whether to invest in that company. All companies are people companies, according to Dr. Amelio, and they succeed only if their executive team is capable of transforming an idea into a viable business. Dr. Amelio did not conduct due diligence on White Nile prior to his testimony, and he was not sure whether he would have invested in the company.

In their closing argument, the claimants asserted that "NeXplore was nothing but White Nile without Thrasher, Coleman and Martin." The claimants asserted that Mandel diverted White Nile's sole investors, the Laynes, and all of the subsequent investors, to NeXplore. The claimants presented various theories of damages that would remedy their claims. As damages for Mandel's breach of fiduciary duty, theft, misappropriation of trade secrets, and shareholder oppression, the claimants requested, among other things, an award in the amount of the salary and attorney's fees paid to or on Mandel's behalf by NeXplore as well as the value of Mandel's shares in NeXplore.

White Nile's preferred remedy — and the focus of the damages portion of closing argument — was an award of compensatory damages in the amount of the

value of White Nile and its intellectual property. The claimants discussed the evidence in support of various valuation methods. These methods included calculating a value for White Nile based on the value of NeXplore. In the portion of closing arguments addressing the value of Mandel's shares in NeXplore, the claimants relied upon documentary evidence indicating that Mandel received benefits in the form of salary, commission and bonuses totaling $2,726,926.61 from NeXplore and that he also benefited from NeXplore's payment of $725,789 in attorneys' fees relating to the litigation with Thrasher and Coleman.[4] In the same section of their closing arguments, the claimants discussed the evidence regarding the investments by Skinner's parents in NeXplore at or around the time of NeXplore's formation.

The Court issued its findings of fact and conclusions of law regarding the debtor's objections to the claims of Thrasher, Coleman and White Nile on September 30, 2011.[5] The Court concluded that Mandel's

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[4] Mandel's testimony about the salary and other benefits he received from NeXplore was vague. The claimants relied on documentary evidence, including Mandel's tax returns and spreadsheets produced by NeXplore, to calculate Mandel's salary and litigation expenses during this period.

[5] An appeal and cross-appeal followed. More than five months later, while the appeals were pending, Thrasher and his attorneys (as partial assignees of Thrasher's claim) filed a motion seeking reconsideration based on what they described as new evidence.

shares in White Nile failed for lack of consideration, because Mandel failed to invest $300,000 in the company. This Court further concluded that Thrasher, on behalf of White Nile, had established claims against Mandel for breach of his non-disclosure agreement with White Nile, breach of his fiduciary duty to White Nile, and fraud. This Court awarded White Nile the total sum of $300,000 in compensatory damages.

On remand, this Court issued supplemental findings and conclusions with respect to the compensatory damages previously awarded to Thrasher and Coleman. This Court did not address the compensatory damages previously awarded to White Nile. White Nile seeks reconsideration of this Court's opinion and requests that the Court also consider, on remand, White Nile's compensatory damages.

CONCLUSIONS OF LAW

In the motion for reconsideration, White Nile seeks to increase its compensatory damages to at least $483,500. This sum consists of the $197,000 transferred from White Nile's bank account to NeXplore (with the Laynes' permission) and the $286,500 subsequently invested in NeXplore by the Laynes.

This Court dismissed the motion for lack of jurisdiction. Thrasher and his attorneys appealed the dismissal. The Eastern District Court held that the appellants waived their arguments on appeal by failing to present them, first, to this Court, and the Eastern District Court dismissed the appeal. *See MaddenSewell, LLP, et al. v. Mandel*, 498 B.R. 727 (E.D. Tex. 2013).

White Nile asserts that an increase in damages to $483,500 is compelled by this Court's prior conclusion that Mandel conspired to misappropriate White Nile's investment opportunities.

In addition, White Nile argues that this Court erred by failing to award it compensatory damages in the amount of the salary and other benefits Mandel received from NeXplore from 2006 through 2009. White Nile's argument appears to be premised on the theory that this Court previously found that NeXplore was really just White Nile without Thrasher, Coleman, and Martin. Alternatively, White Nile argues that Mandel should be required to account for and yield to White Nile any profit he made "as a result of his breach of fiduciary duty." White Nile argues that Texas courts require fiduciaries who breach their fiduciary duties "to disgorge the profits they obtained by way of such breach."

A.
Disgorgement of the Salary Mandel Received from "White Nile"

An employing corporation may recover the compensation paid to an officer during the period in which he was breaching his or her fiduciary duty to the corporation. *See generally* 3 FLETCHER CYC. CORP. § 856 *Officers and Directors Engaging in Competing Businesses* ("If the officer breaches his or her fiduciary duty to the corporation, the corporation as the employer may recover the total compensation paid to the officer during the period that the breach occurred.") (collecting authority). Equitable forfeiture is distinguishable from an award of actual damages in that it

serves a separate function of protecting fiduciary relationships. *ERI Consulting Eng'rs, Inc. v. Swinnea*, 318 S.W.3d 867, 874 (Tex. 2010). For example, in *In Matter of Bennett*, 989 F.2d 779 (5th Cir. 1993), opinion amended on reh'g, 1993 U.S. App. LEXIS 19366, 1993 WL 268299 (5th Cir. 1993), a managing partner forfeited his right to compensation from the partnership as result of his fiduciary breaches to that partnership. Similarly, in *Anderson v. Griffith*, 501 S.W.2d 695, 702 (Tex. Civ. App. — Fort Worth, 1973), *writ refused NRE* (Mar. 13, 1974), a real estate agent breached his fiduciary duty to his client and forfeited his right to compensation from his client for his services as agent.

Here, Mandel did not receive a salary from White Nile. White Nile is not seeking to recover payments it made to Mandel during the time he was breaching his fiduciary duty, but to recover any compensation Mandel received from NeXplore. White Nile appears to argue that "law of the case" compels this Court to conclude that NeXplore is really just White Nile with another name and, therefore, White Nile can recover the salary and other benefits Mandel received from NeXplore.

White Nile's argument appears to be based on this Court's finding that Mandel told Savard that NeXplore was just a name change. This Court never found that Mandel's statement was true. The claimants did not request this Court to pierce NeXplore's corporate veil, and this Court has not done so. As a matter of fact, in all of its relevant opinions and orders, this Court has respected NeXplore as a distinct entity —

an entity that was not a party to Mandel's objections to the claims of White Nile, Thrasher, and Coleman.[6]

B.
Disgorgement of the Salary Mandel Received from NeXplore

Alternatively, White Nile argues that the amount of the salary and benefits Mandel received from NeXplore should be used as the appropriate measure of damages. This Court previously found and concluded that Mandel breached his fiduciary duty to White Nile by transferring the money the Laynes invested in White Nile to NeXplore and by forming NeXplore to develop search engine technology similar to the technology developed and patented by Thrasher and Coleman, among other things. Thus, White Nile argues that Texas law requires Mandel to account to it for any profits or benefits he received as a result of his breaches of fiduciary duty and to disgorge those profits to White Nile.

All of the cases cited by White Nile require a nexus between the breach and the financial benefit or profit. In this case, however, White Nile failed to establish a causal connection between the salary and other benefits Mandel received from NeXplore and Mandel's breaches of fiduciary duty to White Nile. Thrasher's interest in the intellectual property he assigned to White Nile reverted to him according to the terms of

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[6] The claimants may bring whatever causes of action they have against NeXplore for its use, if any, of their intellectual property in a court of appropriate jurisdiction.

the assignment. Coleman's interest in the intellectual property he developed for White Nile also reverted to him. As the Fifth Circuit discussed in its opinion, the consulting agreement in which Coleman assigned his intellectual property to White Nile was fraudulently induced by Mandel and, therefore, is void.

It does not appear that NeXplore actually developed the intellectual property that belonged to Thrasher and Coleman. Based on the credible evidence at trial, the salary and other benefits Mandel received from NeXplore from 2006 through 2009 were not paid on account of, or as a proximate result of, his breaches of fiduciary duty to White Nile. The Court, therefore, concludes that White Nile failed to establish grounds for disgorgement.

Many of the cases cited by White Nile, such as *International Bankers Life Ins. Co. v. Holloway*, 368 S.W.2d 567 (Tex. 1963), appear to rely on the corporate opportunity doctrine.[7] The "corporate oppor-

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[7] White Nile also relies upon *Burrow v. Arce*, 997 S.W.2d 229 (Tex. 1999), for the proposition that they are entitled to an award in the amount of Mandel's salary from NeXplore. *Burrow* involved a lawyer's breach of fiduciary duty to his client and a request for forfeiture of the attorney's fees. Mandel is not an attorney who received a fee from the claimants. The claimants have not shown that the equitable remedy of fee forfeiture applies under the circumstances of this case. Further, under Texas law, directors and officers are not strictly trustees, and their duties and liabilities are not necessarily identical with those of

tunity" doctrine applies "where a corporation has a legitimate interest or expectancy in, and the financial resources to take advantage of, a particular business opportunity." *Dyer v. Shafer, Gilliand, Davis, McCollum & Ashley, Inc.*, 779 S.W.2d 474, 478 (Tex. Civ. App. — El Paso 1989, writ denied). "When a corporate officer or director diverts a corporate opportunity to himself, he breaches his fiduciary duty of loyalty to the corporation." *Id.* In cases involving lost corporate opportunities, courts measuring damages seek to ascertain the reasonable value for the opportunity lost to the corporation and any benefits the fiduciary personally acquired as a result of the deprivation. *See United Teacher's Associates Ins. Co. v. MacKeen & Bailey, Inc.*, 847 F. Supp. 521, 539 (W.D. Tex. 1994) *aff'd in part, rev'd in part sub nom. United Teacher's Associates Ins. Co. v. MacKeen & Bailey Inc.*, 99 F.3d 645 (5th Cir. 1996).

Here, Mandel openly discussed with Thrasher and Coleman the direction he wanted to take White Nile. White Nile's executive team could not agree. Thus, White Nile was presented with the opportunity to refocus and create a social media platform as part of its search engine technology, but White Nile declined. Moreover, White Nile did not have a tenable business plan for creating the unique search engine with the functionality envisioned by Thrasher and Coleman.

Mandel breached his duty of loyalty to White Nile by diverting the remaining $197,000 of the invest-

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other fiduciaries. *See Tenison v. Patton*, 95 Tex. 284, 67 S.W. 92, 94 (Tex. 1902).

ment made by Skinner's parents. Mandel thereby deprived White Nile of investment opportunities with respect to those funds. However, with the exception of the $197,000 transferred from White Nile's bank account, White Nile failed to show that it had a legitimate expectation in the investments received by NeXplore or that White Nile would have received the investments but for Mandel's breaches of his fiduciary duty.

White Nile did not establish that Skinner's parents would have invested additional funds with it. White Nile also did not establish that any of the other investors Skinner and his father helped to recruit to invest in NeXplore would have invested in White Nile. The Court, therefore, concludes that White Nile is not entitled to an award of damages measured by the Laynes' investment of $286,500 in NeXplore or any of the other investments in NeXplore.

CONCLUSION

As the Court previously stated, the Fifth Circuit does not appear to have vacated and remanded the award of compensatory damages to White Nile. The Court, therefore, denies the motion for reconsideration. In the event the Court's reading of the Fifth Circuit's opinion is incorrect, for the reasons set forth in this memorandum opinion, the Court would increase the award to White Nile by $197,000 for a total award of $497,000 in compensatory damages.

SO ORDERED.

Signed on 3/23/2016

/s/ Brenda T. Rhoades SR

HONORABLE BRENDA T. RHOADES,

UNITED STATES BANKRUPTCY JUDGE

EOD
09/30/2015

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

IN RE:	§	
	§	
EWARD MANDEL,	§	CASE NO. 10-40219
	§	
DEBTOR	§	(Chapter 7)

MEMORANDUM OPINION
AND ORDER ON REMAND

This matter involves a dispute over the allowablility of the proofs of claim filed by Steven Thrasher and Jason Coleman in this bankruptcy case. The claimants alleged the total amount of their claims exceeds $80 million based on various causes of action arising out of a failed business venture. The debtor, Edward Mandel, objected that the Court should disallow the claims in their entirety.

Following a lengthy trial, this Court concluded that the claimants had established some of their causes of action against Mandel, including breach of contract, fraud, breach of fiduciary duty, and misappropriation of trade secrets. The claimants had not attempted to establish damages for each of their causes of action at trial but, instead, argued that their damages for misappropriation of trade secrets subsumed most of their other damages. On September 30, 2011,

this Court entered an order awarding $1,000,000 to Thrasher and $400,000 to Coleman as compensatory damages as well as $1,500,000 in attorneys' fees.

Mandel and the claimants appealed this Court's decision. While their appeals were pending, on June 28, 2012, this Court appointed a chapter 11 trustee for Mandel's bankruptcy estate. The chapter 11 trustee requested approval of a settlement agreement allowing the claims of Thrasher and Coleman against the bankruptcy estate in the amounts set forth in the September 30th order. The Court entered an order approving the settlement agreement on November 6, 2013. On December 19, 2014, the Court entered an order granting Mandel's motion to convert his case to a chapter 7 case.

The district court affirmed this Court's decision regarding Mandel's objections to the claims filed by Thrasher and Coleman. This matter is on remand from the Fifth Circuit, *In re Mandel*, 578 Fed. Appx. 376 (5th Cir. 2014). The Fifth Circuit found it clear from the trial record that "Thrasher and Coleman did suffer some damage." The Fifth Circuit, however, remanded the issue of compensatory damages for Thrasher and Coleman in order to allow this Court to "either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record." *Id.* at 391.

The amount of the claims of Thrasher and Coleman has been settled with the estate. A ruling on the issue of compensatory damages will not aid in its ad-

ministration. Mandel, however, seeks a ruling on remand on the amount of the compensatory damages awarded to Thrasher and Coleman.[1] The amount of compensatory damages may be relevant in the event the Court denies Mandel a discharge (11 U.S.C. § 727) or finds his debts to the claimants non-dischargeable in bankruptcy (11 U.S.C. § 523).

FINDINGS OF FACT

The Court incorporates the background section of the Fifth Circuit's decision as well as this Court's prior findings of fact as confirmed by the Fifth Circuit. To provide context, certain relevant facts are repeated below, together with additional facts — gleaned from the evidence admitted at trial — pertinent to this memorandum opinion.

This litigation arises out of the failure of White Nile Software, Inc. Thrasher, an intellectual property attorney, conceived of what he believed to be a new

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[1] White Nile Software, Inc. also filed a claim against Mandel. The Court tried White Nile's claim along with the claims of Thrasher and Coleman. Following the conclusion of trial, the Court awarded compensatory damages in the total sum $300,000 to Thrasher, on behalf of White Nile, for breach contract, breach of fiduciary duty and fraud. This award is not mentioned in the portion of the Fifth Circuit's opinion that vacates the separate awards of compensatory damages to Thrasher and Coleman. In addition, on remand, the parties have not presented arguments relating to the compensatory damages awarded to Thrasher on behalf of White Nile.

type of search engine that would use icons to create and display searches of all of the information available on the internet. He shared the idea with Mandel in the summer of 2005. Mandel agreed to finance a prototype, which they anticipated would cost $300,000 to produce. Mandel and Thrasher formed White Nile to develop Thrasher's invention.

Mandel and Thrasher arbitrarily assigned a value of $100 million to White Nile as they were discussing the formation documents prepared by Mandel's legal counsel. They believed Thrasher's ideas would dominate the search engine market. Thrasher believed he could patent at least 300 ideas for White Nile, and he anticipated all of these patents would provide a huge income stream for the company. Thrasher and Mandel also planned for White Nile to make money through "per click" advertising (like Google) as well as through a propriety, yet-to-be-developed form of advertising that would allow advertisers to target the particular characteristics of the individuals using White Nile's search engine. They projected White Nile would make billions of dollars within less than a handful of years.

At some point, Thrasher sought funding from a company called White Rock Capital. White Rock Capital declined to make an investment. White Rock Capital expressed interest in revisiting the discussion after Thrasher developed a prototype of his search engine.

In or around September 2005, Mandel and Thrasher met with representatives of Meaningful Data Solutions ("MDS"). They agreed to negotiate an

engagement agreement for MDS to help develop White Nile's search engine. MDS anticipated the project would cost $216,500, and Mandel told Thrasher he would pay MDS.

Thrasher reached out to another friend, Coleman, to help him develop his idea for a new search engine. Thrasher had known Coleman for several years. They met in 1999 when Thrasher worked as legal counsel on a patent Coleman had invented. Thrasher contacted Coleman in September 2005 about White Nile.

In October 2005, Coleman executed a consulting agreement with White Nile. The agreement provided Coleman would be responsible for developing a "demo" by October 15, 2005, a "prototype" by November 15, 2005, and an "alpha" version of the search engine by January 2006, among other things. Coleman assigned his work product, including patentable ideas, to White Nile as part of the consulting agreement.

The term of Coleman's consulting agreement was three years, beginning on October 1, 2005 and ending on October 1, 2008. The consulting agreement provided Coleman would receive an annual salary of $133,000 as well as warrants, when exercised, equaling at most 0.5% of the equity of White Nile if he met his contractual obligations.[2] The consulting agreement provided Coleman would begin receiving an annual salary no later than 60 days after White Nile re-

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[2] The consulting agreement contained other provisions for the purchase of warrants in lieu of salary.

ceived $5 million in funding. With respect to termination, the consulting agreement provided Coleman "shall not be dismissed during the term of this contract except for cause, which shall consist [of] gross misconduct or a recurring failure to meet his responsibilities under this contract."

Coleman began working full-time for White Nile in October 2005. He worked closely with Thrasher to develop the user interface for a search engine. Coleman prepared a demonstration of what White Nile's search engine would look like when it became operational, and he began working the basic framework White Nile would need in order to create software. He referred to his work on a prototype as the SAQQARA project. In addition, he and Thrasher co-invented a patent, referred to by the parties as the 802 patent, during this time.

At trial, Coleman explained that, to him, a prototype was an interactive piece of software that demonstrates the way in which an application will work. The demonstrative version of the search engine created by Coleman — or "prototype" -- allowed users to type in a word or phrase. It produced a Venn diagram that graphically represented the search terms. It also created placeholder text that simulated search results. The "prototype" developed by Coleman could not search the internet to produce real search results.

After negotiations with MDS fell through, Mandel represented to Thrasher and Coleman that he had secured a team of professional developers through a contact in the Philippines. Mandel also represented to Thrasher and Coleman that Eduardo Carrascoso had

agreed to invest $6 million in White Nile and that Carrascoso had placed $1 million in escrow. Thrasher and Coleman did not establish that they relied on these misrepresentations to their detriment. However, in late October 2005, Thrasher prepared materials to share with potential investors that described the investments-to-date in White Nile, including a $6 million investment by Carrascoso. Mandel reviewed the materials and corrected the spelling of Carrascoso's name.

In mid-November 2005, Thrasher, Mandel and Coleman travelled to the Philippines to meet the developers Mandel had assured them were working on developing software for White Nile's search engine in a compound outside of Manila. There were no developers. Thrasher and Mandel initiated negotiations with Nikki Carrascoso and his father, Eduardo, about working on the search engine in exchange for expenses plus equity in White Nile.

Eduardo Carrascoso placed no value on a possible equity interest in White Nile and, instead, requested higher cash payments. Eduardo expressed an interest in providing services to White Nile in exchange for cash payments in excess of $1 million. Thrasher became very concerned that potential investors would perceive these negotiations as meaning the shares of White Nile had no real value. Eduardo terminated negotiations on November 27, 2005.

By mid-December, the relationship between Mandel and Thrasher was disintegrating. Thrasher was frustrated at the lack of progress in developing his idea for a search engine. He was worried that other

companies were developing similar ideas and might bring them to the market before White Nile. He shared his concerns with Mandel and Coleman.

Mandel wanted to take a different direction with the company that emphasized social media. He also wanted to rename the company to help with marketing it to investors. During the trip to the Philippines, Mandel, Thrasher and Coleman discussed the name "NeXplore," among other possibilities. Thrasher was open to a new name for White Nile so long as it was a good one.

Mandel began maneuvering to isolate Thrasher from White Nile's employees and investors as well as to remove Thrasher from his role as an officer of White Nile. However, Mandel did not really understand what Thrasher and Coleman had been doing or the intellectual property they had been developing for White Nile. Mandel sent Joseph Savard, the chief technology officer he had recruited for White Nile, to Thrasher's home to review White Nile's patents and projects.

Savard appreciated the quality of the work Coleman had done on the user interface for White Nile's search engine. However, in Savard's opinion, Coleman had not created a prototype for a search engine -- and certainly not a working prototype. Savard and Coleman agreed that what Coleman referred to as a "prototype" for White Nile's search engine did not involve production code and was not ready for production or testing.

When he began working for White Nile, Coleman agreed to defer his compensation for two or three

months (at his discretion) in order to decrease cash pressure on the company. In late November, at a time when Mandel was representing that White Nile had secured investments in excess of $5 million, Coleman requested to be paid half of what he was entitled to under his consulting agreement for one month's work. He received $5,541.67 from White Nile in December 2005.

By late-December, Mandel was accusing Thrasher of misconduct with respect to White Nile. Thrasher responded to Mandel's aggressive communications by suggesting a "cooling off" period that would allow them to work out their differences. Mandel rejected Thrasher's suggestion. Mandel continued his efforts to recruit certain of White Nile's employees, such as Savard, to join NeXplore Technologies, Inc.

NeXplore formed in December 2005. Its owners and board of directors consisted of Mandel, Skinner Layne, and Paul Williams. Skinner was a recent college graduate who Thrasher's friend, Rod Martin, had previously invited to join White Nile. Thrasher and Mandel had previously engaged Williams to work for White Nile in an advisory role; Mandel had represented to Thrasher that Williams was a licensed broker/dealer who could help White Nile recruit investors and raise funds. Prior to his recruitment by Mandel to join NeXplore, Williams had helped Mandel and Thrasher begin developing a business plan for White Nile.

In January 2006, Mandel took control of White Nile's bank account. The account held $197,000 —

which was the remaining balance of the $300,000 investment made by Skinner's parents in White Nile. After Mandel took control of the account, the Laynes immediately re-invested the funds in NeXplore.

Mandel joked that the only difference between NeXplore and White Nile was a change in name. Indeed, the weight of the expert testimony supported the conclusion that White Nile's and NeXplore's concepts were very similar. NeXplore even used a Venn-diagram image of intersecting circles on its website. Mandel and Williams developed an almost identical business plan for NeXplore. In its business plan, NeXplore boasted that it would re-define the search experience. NeXplore described its search as featuring a visually engaging, user-friendly, multi-media interface. However, at some point before October 2007, NeXplore decided not to create its own search engine from scratch but, instead, to use an existing search engine such as Google or Yahoo.

During January and February 2006, Coleman attempted to negotiate a settlement with Thrasher and Mandel regarding the amounts he believed he was owed for the work he had performed for White Nile. Coleman requested a cash payment of $38,791.66. Thrasher agreed to take out a second mortgage on his home to pay half of this amount. Mandel did not offer to make any payment to Coleman but, instead, caused White Nile to sue him for allegedly breaching his consulting agreement and allegedly attempting to extort money from White Nile.

Mandel, Coleman and Thrasher have been embroiled in litigation relating to White Nile since early

2006. In late 2006, Coleman began working on the 802 patent again by refining and extending its inventions, among other things. The patent office subsequently issued a patent to Thrasher and Coleman, which NeXplore unsuccessfully challenged.

Mandel, Skinner, and Skinner's father, Eddy, among others, marketed NeXplore to potential investors during 2006 and early 2007. NeXplore held informational meetings in Arkansas at which Skinner would tell potential investors about NeXplore's proposed business. Skinner would explain that NeXplore envisioned selling publicly traded stock after executing a reverse merger with another company whose stock was already on the stock exchange. Skinner's father, Eddy, and other managing partners of LLCs that were investing in NeXplore stock were at these meetings ready to sell LLC membership units to prospective investors. On June 21, 2007, the State of Arkansas Securities Department issued a Cease and Desist Order that detailed the investment scheme and the funds raised by NeXplore.

Although Mandel and others raised approximately $2.5 million for NeXplore during 2006 and early 2007,[3] NeXplore was less successful at developing a usable product. Savard was unable to create software that would create a "social computing platform" as envisioned by Mandel. Mandel and the programmers

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[3] According to a Form 8-K that NeXplore filed with the U.S. Securities and Exchange Commission on March 30, 2007, NeXplore had raised approximately $2.5 million from investors and borrowed $150,000 on a line of credit through March 13, 2007.

also disagreed about advertising and an appropriate advertising platform.

The relationship between Savard and Mandel deteriorated, and Savard left NeXplore in November 2006. The relationship between Skinner and Mandel also deteriorated, and Skinner left NeXplore in or around October 2007. NeXplore had abandoned any attempt to create its own search engine by the time Skinner left NeXplore in October 2007.[4]

In October 2007, the parties in the state court litigation (who included Mandel, Thrasher and Coleman) appeared in open court and announced a tentative settlement. Mandel's new company, NeXplore, proposed to fund the settlement. Thrasher and Coleman would receive $450,000 paid in installments or, if the payments were not made, an agreed judgment of $900,000. The settlement also provided for a royalty fee of two percent of NeXplore's gross revenue for five years in return for agreement to license their patents to NeXplore.

Mandel knew NeXplore did not have the ability to fund the tentative settlement. After they announced the general terms of the settlement to the state court, Mandel, Thrasher and Coleman disagreed about how to define the "White Nile intellectual property" that would be licensed to NeXplore.

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[4] According to NeXplore's unaudited financial statements dating from 2009 and 2010, it raised tens of millions of dollars after abandoning its effort to create its own search engine.

Mandel refused to proceed with documenting the settlement agreement. Thrasher and Coleman sought to enforce it by, among other things, asserting claims against Mandel for breaching the agreement. In May and June 2009, the state court issued summary judgment orders ruling, as a matter of law, no enforceable settlement agreement was formed as a result of the announcement on the state court record in October 2007.

NeXplore funded the state court litigation against Thrasher, Coleman and others as well as a variety of other lawsuits, including a suit against Savard in 2007 and a suit against Williams in 2008. NeXplore had not achieved profitability or developed a marketable product by the time of the trial in this Court. However, NeXplore appears to have continued to operate and market itself to potential investors in the years leading up to trial. Mandel received total compensation (salary, commission, and bonuses) from NeXplore of $2,726,926.61 through 2009. In addition, NeXplore paid or incurred $725,789 in attorney's fees and costs on behalf of Mandel.

DISCUSSION

Following remand, the Court invited the parties to submit briefing regarding the compensatory damages issue before the Court. The claimants re-urge the damages theories they presented at trial. Mandel argues that this Court should award zero damages, because the claimants failed to prove their case at trial. In addition, Mandel asks this Court to vacate the attorney's fees it awarded to the claimants on the grounds that the Fifth Circuit did not explicitly affirm

the award and it would be inconsistent to award attorney's fees where there are no damages.

On appeal, Mandel challenged the award of attorneys' fees to Coleman. The Fifth Circuit expressly rejected Mandel's challenge in its opinion. The only issue vacated and remanded to this Court is the award of compensatory damages of $1,000,000 to Thrasher and $400,000 Coleman. This Court, therefore, declines to vacate the award of attorney's fees.

There is no question on remand that Thrasher and Coleman suffered damages as a result of the wrongful conduct of Mandel. The question is how to calculate an award of compensatory damages. The trial record in this case is extensive, the parties extensively addressed damages at trial, they presented numerous expert witnesses, and no additional evidence regarding damages is necessary on remand. The trial record on damages is sufficient.

Turning to the trial record, Thrasher and Coleman filed proofs of claim using Official Form 10. Thrasher's proof of claim listed an unsecured debt in an amount not less than $56 million owed by Mandel. Coleman's proof of claim listed an unsecured debt in an amount not less than $25,000,000 owed by Mandel. Their proofs of claim attached and relied upon the operative pleadings from the state court litigation.

A proof of claim executed and filed in accordance with the requirements of Bankruptcy Rule 3001 and Official Form 10 constitutes "prima facie evidence of the validity and amount of the claim." FED. R. BANKR. P. 3002(f). Once filed, a proof of claim "is deemed allowed" unless a party in interest objects.

See 11 U.S.C. §502(a). In this case, Mandel objected to the allowance of their claims against his bankruptcy estate. The claimants bore the same burden of proof respecting their claims as they would bear outside of bankruptcy. *Raleigh v. Ill. Dep't of Revenue*, 530 U.S. 15, 26, 120 S. Ct. 1951, 147 L. Ed. 2d 13 (2000); *In re Promedco of Los Cruces*, 275 B.R. 499, 503 (Bankr. N.D. Tex. 2002).

Thrasher and Coleman asserted a number of causes of action against Mandel in support of their proofs of claim. Following trial, the Court concluded that Thrasher had established claims against Mandel for breach of contract, fraud, conspiracy, shareholder oppression and misappropriation of trade secrets. The Court concluded Coleman had established claims against Mandel for fraudulent inducement, conspiracy, and misappropriation of trade secrets.

In his closing arguments, Thrasher sought an award of $300,000 for Mandel's fraud. In particular, Mandel fraudulently misrepresented that he would invest $300,000 in White Nile in order to induce Thrasher to do business with him. This Court finds and concludes that Thrasher's damages arising from Mandel's fraudulent misrepresentation were, in fact, $300,000 based on the credible evidence admitted at trial.

Shareholder oppression cannot be a source of compensatory damages (as discussed by the Fifth Circuit). With respect to the remainder of his claims, Thrasher argued that his actual damages overlapped with, and were subsumed by, the damages arising from Mandel's misappropriation of trade secrets. The

bulk of Thrasher's damages argument at trial was how to measure the damages, if any, arising from Mandel's misappropriation. Thrasher primarily relied on the testimony of his expert, Brad Taylor, to support an award of $56 million (or more).

As noted by the Fifth Circuit:

> Damages in misappropriation cases can take several forms: the value of plaintiff's lost profits; the defendant's actual profits from the use of the secret; the value that a reasonably prudent investor would have paid for the trade secret; the development costs the defendant avoided incurring through misappropriation; and a reasonable royalty.

Wellogix, Inc. v. Accenture, L.L.P, 716 F.3d 867, 879 (5th Cir. 2013) (quoting *Bohnsack v. Varco, L.P.*, 668 F.3d 262, 280 (5th Cir. 2012). In this case, the nature of the misappropriation made it difficult to prove the amount of damages with certainty. Such uncertainty does not preclude the recovery of compensatory damages. Nonetheless, Thrasher and Coleman were required to establish the extent of their damages as a matter of just and reasonable inference. *See Wellogix, Inc. v. Accenture, L.L.P*, 716 F.3d 867, 869 (5th Cir. 2013).

White Nile and NeXplore never made a profit. White Nile only had one investor — the Laynes. Inasmuch as the Laynes were the parents of an employee, Skinner, their investment was not an arms-length transaction. Further, the Laynes had received inaccu-

rate information about White Nile when they invested, and Mandel returned the Laynes' money to them when he took over White Nile. White Rock Capital refused to invest in White Nile in its early developmental stage. Eduardo Carrascoso also refused to invest in White Nile and placed no value on an equity interest in White Nile.

With respect to development costs, Thrasher estimated White Nile would require investments of between $6 million and $12 million to bring a usable product to market. Carrascoso requested more than $1 million to begin developing Thrasher's idea for a search engine. The development never occurred. At the time Mandel misappropriated White Nile's trade secrets, the search engine had not been developed beyond the alleged "prototype" stage. Neither White Nile nor NeXplore developed a usable product that could be brought to market. Under these circumstances, the avoidance of development costs by Mandel through misappropriation cannot be an appropriate measure of damages.

Thrasher and Coleman argued in closing that some evidence of a reasonable royalty can be found in the settlement agreement announced in state court. In state court, Thrasher, Coleman and Mandel announced that they had reached an agreement to a judgment of $900,000 in favor of Thrasher and Coleman. They announced that Thrasher and Coleman would not seek to enforce this judgment provided they received cash payments in the total amount of $450,000. In addition to cash payments, the parties agreed to a "royalty fee" of two percent of NeXplore's gross revenue for five years, payable quarterly, with

a minimum quarterly payment of $2,500. Although NeXplore never created a product that could have generated revenue, the announced settlement agreement suggests an appropriate damages award would be $1,010,000, consisting of the $900,000 agreed judgment, a royalty fee of $30,000 for three years of minimum quarterly payments of $2,500 per quarter, and a royalty fee of $80,000 arising from a two-year license Mandel testified NeXplore signed in October 2010.[5]

In their closing arguments, Thrasher and Coleman also advanced a "lost asset" theory of recovery. They argued that White Nile had a fair market value of $56 million based on Mr. Taylor's expert testimony. They further argued they had lost the value of this asset as a result of Mandel's conduct.

In reaching his conclusion of value, Taylor selected 34 comparable companies focused on similar technology and business characteristics ranging in value from $1 million to $344 million. Taylor's report included the value of some of the largest internet search companies, including Google, Yahoo, and Ask Jeeves. While Mr. Taylor used these companies to run statistical models, he did not adjust for risks specific to White Nile.[6] As Vanessa Fox testified at trial, many

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[5] As previously discussed, the parties ultimately did not consummate the announced settlement agreement.

[6] Taylor prepared his expert report in May 2009 in support of Thrasher and Coleman's claims in the state

internet companies fail — even companies with significantly more expertise and venture capital than White Nile.[7] The claimants' own expert, Dr. Gilbert Amelio, testified that even when companies succeed in attracting investments from venture capitalists, in his experience, approximately 80% of those companies will fail.

Significantly, the quality of White Nile's executive team was not a factor included in Taylor's analysis. Dr. Amelio testified that this information would have been important to a decision to invest in White Nile. All companies are people companies, according to Dr. Amelio, and they succeed only if their executive team is capable of transforming an idea into a viable business. White Nile's executive team did not have this ability.

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court litigation. He supplemented his report on October 22, 2010, which was shortly before trial began in this Court. In his supplemental report, Taylor stated that he believed White Nile's value was substantially higher than $56 million based on Dr. Amelio's expert report as well as the issuance of patents to Thrasher and Coleman. Dr. Amelio, however, had relied upon Mr. Taylor's expert report in reaching his conclusions about the value of White Nile.

[7] One of the internet companies referenced by Taylor in his expert report had failed by the time of trial, according to the testimony of Ms. Fox. Ms. Fox also testified, credibly, that the Venn diagram display of search results envisioned by Thrasher was not astonishingly unique and had been discussed in relevant literature for a number of years.

Value, particularly in start-up companies, is dynamic. As Dr. Amelio testified, it changes with how efficient the company is at executing its business plan. Thrasher also recognized that value can change as competitors bring their own products to market.

In this case, even before the misappropriation occurred, White Nile was having difficulty raising the funds necessary for development costs in sufficient time to beat competitors. White Nile's dysfunctional executive team meant it was never a highly valuable company. Its value declined precipitously as the relationship between Mandel and Thrasher deteriorated, litigation ensued, and time passed. Dr. Amelio testified, credibly, that a nascent company engaged in litigation is not attractive to venture capitalists. Taking into account the significant rate of failures, the dysfunctional executive team, the lack of a functional product, NeXplore's abandonment of its efforts to create its own search engine, and the lack of profits by White Nile and NeXplore, it appears that White Nile's value is closest to the lowest valued company on Taylor's list of companies, which is $1 million.[8]

Thrasher and Coleman also argue an alternate theory of damages based on the benefit Mandel re-

[8] This value is remarkably similar to the damages arrived at using the settlement announced by the parties in state court.

ceived from his misappropriation, namely, a 55% interest in NeXplore.[9] According to the claimants' expert, Brad Taylor, the market capitalization of NeXplore was $47.17 million at the high end and $1.67 million at the low end — thus indicating a value range of $25.9 million to $920,000 for the value of Mandel's 55% interest. White Nile was a nascent search market company with no financing, no usable product, no customers, no profit, and a dysfunctional executive team who engaged in litigation over control of White Nile and its intellectual property. This Court, therefore, again looks to the low end of the market capitalization spectrum for NeXplore in calculating damages for misappropriation, which is $920,000.

In determining damages, the Court also considered the amount of investments NeXplore secured using ideas and materials very similar to those prepared for White Nile. Setting aside the fact that NeXplore's recruitment of investors during 2006 and 2007 violated applicable laws, NeXplore raised approximately $2.5 million from investors before abandoning its attempt to create its own search engine. This would indicate a value of $1,375,000 attributable to Mandel's 55% interest in NeXplore.

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[9] Although Thrasher and Coleman complain about the salary and other benefits Mandel received from NeXplore, the trial record did not establish that Mandel received his salary or benefits on account of misappropriation. Indeed, Mandel worked for NeXplore for a number of years — even after NeXplore abandoned any attempt to create a search engine of its own.

The Court, considering all of the evidence presented at trial, concludes that Thrasher incurred damages as a result of Mandel's misappropriation in the amount of $1 million. Thrasher's damages for misappropriation are co-extensive with and subsume the damages he incurred on account of his other compensable claims against Mandel.

With respect to Coleman, an appropriate measure of damages is not based on the value of White Nile, but on what Coleman would have received under the consulting agreement for the services he rendered, including developing the SAQQARA project and the 802 patent. In contrast to Thrasher, Coleman's interest in White Nile was primarily as a paid consultant, and his arguments for damages in the pre-trial order and in closing referenced his expectations under the consulting agreement. If matters had proceeded as initially planned under the consulting agreement, his intellectual property would have remained assigned to White Nile.

Coleman's consulting agreement, as previously discussed, provided Coleman would receive a salary of $133,000 for three years, with a possibility of an extension of the consulting agreement to future years, plus warrants for an approximately 0.5% equity interest in White Nile. Based on the Court's valuation of White Nile, the value of a 0.5% an equity interest in White Nile is approximately equal to the amount White Nile paid Coleman. Coleman's damages for misappropriation are subsumed by and co-extensive with his fraudulent inducement damages. Thus, considering all of the evidence admitted at trial,

the Court determines that Coleman incurred damages in the amount of $400,000 as a result of Mandel's misappropriation and fraudulent inducement.

CONCLUSION

For all the foregoing reasons, the Court awards $1,000,000 in compensatory damages to Thrasher for misappropriation, of which $300,000 is also attributable to fraud. Thrasher's damages for breach of contract, breach of fiduciary duty and conspiracy are likewise subsumed in the damage award for misappropriation. The Court awards $400,000 to Coleman for his claims for fraud, conspiracy, and misappropriation of trade secrets. Notably, in addition to the compensatory damages awarded here, the claimants' interest in their intellectual property has reverted to them for the reasons described in the Court's prior findings of fact and conclusions of law.[10] Mandel's request to vacate the Court's prior award of attorney's fees is denied.

Signed on 09/30/2015

/s/ Brenda T. Rhoades SD

HONORABLE BRENDA T. RHOADES,
CHIEF UNITED STATES BANKRUPTCY JUDGE

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[10] Any cause of action Thrasher and Coleman may have against NeXplore for the use of their intellectual property are preserved and not before this Court. NeXplore is not a party to this proceeding. This Court would lack jurisdiction to resolve a dispute between Thrasher, Coleman and NeXplore in any event.

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 13-40751

United States Court of Appeals
Fifth Circuit
FILED
August 15, 2014
Lyle W. Cayce
Clerk

In the matter of: EDWARD MANDEL

Debtor,

EDWARD MANDEL,

Appellant, Cross-Appellee,

v.

STEVEN THRASHER; JASON COLEMAN,

Appellees, Cross-Appellants.

Appeals from the United States District Court
for the Eastern District of Texas
USDC No. 4:11-cv-774

Before BARKESDALE, CLEMEN, and OWEN, Circuit Judges.

PER CURIAM:*

The bankruptcy court entered judgment in favor of Stephen Thrasher and Jason Coleman on state-law claims, including the misappropriation of trade secrets, against Debtor Edward Mandel. The district court affirmed the decision in its entirety. All parties appeal and sixteen issues have been presented in this court. We affirm the judgment in part but vacate the award of damages and remand to the bankruptcy court for further proceedings.

I

This lawsuit arose out of the failure of White Nile, a joint-venture between Mandel and Thrasher. Thrasher, an intellectual property attorney, conceived of an idea for a new type of search engine. He shared that idea with Mandel, who represented that he had expertise with the databases that would store the index for the search engine. They signed non-disclosure agreements. Thrasher submitted a provisional patent application, entitled "System, Methods, and Devices for Searching Data Storage Systems and Devices," to the United States Patent and Trademark

* Pursuant to 5TH CIR. R. 47.5, the court has determined that this opinion should not be Published and is not precedent except under the limited circumstances set forth in 5TH CIR. R. 47.5.4.

Office (USPTO). Thrasher was the sole inventor listed on the application.

Mandel and Thrasher formed White Nile to develop this invention. Mandel agreed to finance a prototype, which they anticipated would cost approximately $300,000. Thrasher signed a consulting agreement with White Nile that named Thrasher as a cofounder, an inventor, and chief executive officer. Shortly thereafter, Thrasher filed a second provisional patent application, "System, Methods, and Devices for Searching Data Storage Systems and Devices." Thrasher again was shown as the sole inventor.

Mandel and Thrasher then met with representatives of Meaningful Data Solutions (MDS), who agreed to develop the software for the search engine. MDS forecast a cost of $216,500, and Mandel represented that he would pay MDS. Thrasher assigned to White Nile his search engine intellectual property. The document provided:

> [S]hould White Nile Software, Inc. fail to timely prosecute any such invention by failing to timely file appropriate responses to government entities, including the USPTO statutorily shortened response periods, all rights in the inventions or creations transferred to White Nile Software, Inc. are then void, and any rights remaining transfer back to [Thrasher], and [Thrasher] may prosecute the applications [and] other

> documentation needed, and this agreement shall have no effect as to those items.

Thrasher and Mandel then signed a document titled, "Unanimous Consent in Lieu of Organizational Meeting of Directors of White Nile Software, Inc." It named Mandel as president/treasurer of White Nile and Thrasher as chief executive/secretary. It granted both men 26 million shares of White Nile stock in exchange for the following consideration: (1) Thrasher agreed to assign his then-existing provisional patent applications as well as any future intellectual property to White Nile and (2) Mandel agreed, among other things, to develop White Nile's search engine at his expense by December 31, 2005.

White Nile retained Paul Williams as the Chief Financial Officer. His role was to develop a business plan and raise capital. Mandel and Williams led Thrasher to believe that Williams was a licensed broker-dealer. This was untrue.

White Nile also retained Jason Coleman to develop a graphic representation of the search engine. Coleman signed a consulting agreement, which provided that he was to be "chief creative officer" and a co-founder. Coleman was to produce a demonstrative version of Thrasher's idea, to be called SAQQARA, for which he was to receive an annual salary of $133,000 and an equity interest in the venture if he completed the prototype on schedule. Coleman assigned his work product, including patentable ideas, to White Nile as part of this agreement.

Mandel assured Coleman that White Nile had detailed financial projections, that he intended to pay MDS to create system documents, and later, when MDS's participation did not materialize, that he would contribute the funds that were to have been paid to MDS directly into White Nile. Thrasher subsequently submitted a third provisional patent application to the USPTO titled "Real-Time Search Visualization." It listed both Thrasher and Coleman as inventors. Despite completing his work, Coleman never received an equity interest in White Nile.

Instead of proceeding with the plan to hire MDS to develop the search engine, Mandel suggested that an acquaintance of his, Eduardo Carrascoso, could perform the same work at a lower cost in the Philippines. Mandel represented that Carrascoso had agreed to invest in White Nile, and that Carrascoso had hired a team of PhDs to develop a prototype search engine. Mandel represented that Carrascoso had placed $1 million in escrow to invest in White Nile. Thrasher included these representations in a written presentation, reviewed by Mandel, to potential investors. Mandel had previously visited the Philippines and represented that he had met the developers working for White Nile.

White Nile persuaded Rod Martin to become a member of the board of directors and hired Skinner Layne as an employee. Skinner thought that his parents, Eddie and Ellen Layne, should invest in White Nile. The bankruptcy court found that Martin "cautioned the Laynes about the risks of investing in a

start-up company." Nevertheless, the Laynes invested $300,000 in exchange for 75,000 shares of stock.

Thrasher, Mandel, and Coleman thereafter traveled to the Philippines. Thrasher and Coleman discovered that no one had been working on the search engine and that Carrascoso had not, in fact, escrowed $1 million to invest in White Nile. Carrascoso not only had not invested any money in White Nile, he did not plan to do so, and he had not hired any developers. Just the opposite, Carrascoso expressed interest in being *paid* in excess of $1 million in return for providing services to White Nile. Thrasher eventually reached a tentative, oral agreement with Carrascoso to provide development services. Thrasher, Mandel, and Coleman interviewed applicants to begin work on the project in Manila. During the interviews, Thrasher and Coleman learned that "Mandel was not particularly knowledgeable about . . . database programming," despite his earlier representations. The three of them also discussed new names for White Nile, including "Nexplore," but did not reach an agreement. After they returned to the United States, Carrascoso declined to proceed with providing services to White Nile.

On December 15, 2005, Williams conducted an investor meeting in Arkansas using the demonstrative materials developed by Coleman. The next day, Thrasher discovered that Williams was not a licensed broker. As the bankruptcy court found, "Thrasher was well aware of the legal repercussions of a misrepre-

sentation about Williams' status to potential investors and took immediate action to address what he viewed as a disaster."

By mid-December 2005 Mandel and Thrasher's relationship was disintegrating. There was no development team functioning in the Philippines. It had also become evident that Mandel did not intend to contribute any of his own funds to White Nile despite his previous representations. Instead, Mandel and Skinner formed a new company. On December 18, Skinner reserved NeXplore.com as a domain name. Mandel sent Joseph Savard, the chief technology officer that Mandel had hired for White Nile, to Thrasher's home to review White Nile's patents and projects. Mandel then hired Savard at NeXplore. Mandel also recruited Williams to join NeXplore. At about this time, Thrasher instructed White Nile's bank to make a payment to Thrasher's father as reimbursement for hardware purchased for White Nile. These instructions conflicted with instructions Mandel had already given the bank, unbeknownst to Thrasher, to place all the funds in White Nile's account into a new account under Mandel's sole control. Thrasher and Martin met with Mandel to discuss the situation. Mandel did not tell them that he was forming a new company, NeXplore, or that Mandel had asked the Laynes to move their invested funds from White Nile to NeXplore. Thrasher and Martin discovered much later that NeXplore received $197,000 from the Laynes and $286,500 from Arkansas Investment, a limited liability company formed by the Laynes after the December 15 White Nile presentation.

On January 11, 2006, Mandel signed corporate documentation purporting to remove Thrasher from office and purporting to appoint Skinner and Williams to serve as new directors of White Nile. On January 16, 2006, Mandel, Williams, and Skinner held a directors' meeting without informing either Thrasher or Martin. At the meeting, they purported to declare that White Nile was no longer a going concern, and also purported to release all individuals from the non-compete and non-disclosure agreements they had signed with White Nile. The next day, Skinner incorporated NeXplore. Skinner, Mandel, and Williams all became shareholders and directors and the Laynes became investors. Williams drafted a business plan "virtually identical" to the one he created for White Nile. Savard testified that Mandel referred to NeXplore as "just a name change" from White Nile and that Mandel told him to hide from Thrasher that NeXplore was building a search engine.

Thrasher filed two non-provisional (or utility) patents relating to White Nile's search engine during 2006. Prior to that time, Mandel, the acting CEO of White Nile, had taken no action to protect White Nile's intellectual property from NeXplore or other possible encroachers. The first patent application (299 patent), listing Thrasher as the sole inventor, was filed on June 30, 2006 and issued on September 14, 2010. The second (802 patent), listing both Thrasher and Coleman as inventors, was filed on December 14, 2006. Shortly after the filing of the 299 utility patent, Williams filed a grievance against Thrasher with the Texas State Bar. Skinner testified that this was an attempt by Mandel "to cow" Thrasher by threatening his livelihood. The Bankruptcy Court

found that "Mandel's testimony that he did not participate in filing the grievance, or that he did not intend to threaten Thrasher's livelihood, was contradicted by the documentary evidence." The Texas Bar dismissed the grievance.

In early 2006, Coleman approached Mandel and Thrasher to seek payment for his work for White Nile. Thrasher agreed to pay Coleman but Mandel declined and instead sued Coleman in state court on behalf of White Nile. Mandel later sued Thrasher as well. Coleman and Thrasher responded by asserting counterclaims against Mandel and brought claims against others. The parties reached a tentative settlement in which Thrasher and Coleman were to receive payments of $450,000 and a royalty fee of two percent of NeXplore's gross revenue for five years in return for agreeing to license their patents to NeXplore. After the settlement had been announced in open court, Mandel refused to proceed with it. The state court appointed a receiver for White Nile, but Mandel refused to pay his portion of the receiver's fees. Mandel filed a grievance against Thrasher with the USPTO contending that he was the one who actually invented the intellectual property. The USPTO dismissed his complaint. The bankruptcy court found that "Mandel was not, in fact, an inventor or co-inventor of any of the intellectual property at issue."

On January 25, 2010, Mandel filed a Chapter 11 petition. The state court was proceeding to sanction Mandel for his failure to pay the receiver's fees when he filed for bankruptcy. Since 2006, NeXplore had paid Mandel a total of $2,726,926 in salary and in-

curred approximately $750,000 in legal fees on his behalf. Thrasher and Coleman, on their own behalf and derivatively on behalf of White Nile, asserted numerous state law claims in the bankruptcy court. Mandel counterclaimed against Thrasher and Coleman. The bankruptcy court conducted a bench trial and found Mandel liable for (1) theft or misappropriation of trade secrets; (2) breach of contract; (3) breach of fiduciary duty; (4) fraud and fraudulent inducement; (5) oppression of shareholder rights; and (6) conspiracy. The bankruptcy court awarded: [**12] $400,000 in damages to Coleman; $1,000,000 to Thrasher; and $300,000 to White Nile. The Court denied the request for exemplary damages. It awarded attorneys' fees to Thrasher and Coleman because they prevailed on their theft of a trade secret claim. The parties appealed and cross-appealed to the district court, which affirmed the judgment in its entirety. The parties now appeal and cross-appeal to this court. We affirm the judgment of the district court in part and vacate in part. We vacate only the damages award by the bankruptcy court, and we remand the issue of damages to the bankruptcy court so that it may explain, support, or revise its compensatory damages award in order to be consistent with state and federal precedents.

II

This court reviews the decision of a district court, sitting in an appellate capacity, by applying the same standards employed by the district court in its review

of the bankruptcy court's findings of fact and conclusions of law.[1] We review findings of fact, including a damages award, for clear error, and we review conclusions of law de novo.[2] Under the clearly erroneous standard, we will "defer to a bankruptcy court's factual findings unless, after reviewing all of the evidence, we are left with a firm and definite conviction that the bankruptcy court made a mistake."[3]

Mandel raises a number of errors on appeal. He contends no damages should have been awarded, there was no breach of contract as to Coleman, the misappropriation or theft of trade secrets causes of action cannot be sustained, there is no evidence of fraud, the finding of shareholder oppression in favor of Thrasher cannot stand, Mandel did not breach a fiduciary duty to White Nile, and there is no basis for the finding of conspiracy.

Thrasher and Coleman challenge the award of damages, claiming that the award should have been greater. They also challenge the exclusion of certain

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[1] *In re Tex. Commercial Energy*, 607 F.3d 153, 158 (5th Cir. 2010).

[2] *Id.*; *see also Delahoussaye v. Performance Energy Servs., L.L.C.*, 734 F.3d 389, 394 (5th Cir. 2013) ("A district court's award of damages is a finding of fact, which we will reverse only for clear error.").

[3] *In re Cahill*, 428 F.3d 536, 542 (5th Cir. 2005) (internal quotation marks omitted).

evidence by the bankruptcy court and the denial of punitive damages.

III

Mandel asserts that the bankruptcy court erred by finding that he misappropriated trade secrets. Misappropriation is established by showing that (a) a trade secret existed, (b) the trade secret was acquired through a breach of a confidential relationship or discovered by improper means, and (c) there was use of the trade secret without authorization.[4] Mandel alleges that the third element, use, was not established. The term "use" is defined broadly under Texas law.

> [A]ny exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a use . . . . Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of infor-

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[4] *Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867, 874 (5th Cir. 2013); *see also Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 463 (Tex. App.—Austin 2004, pet. denied).

> mation that is a trade secret all constitute use.[5]

Our review of the record reflects that there were sufficient facts to support a finding of actual use.

Mandel formed NeXplore in order to develop a search engine technology that experts testified was very similar to the technology developed and patented by White Nile. The bankruptcy court found these experts to be credible. Additionally, NeXplore hired a number of former employees of White Nile and developed an almost identical business plan. Mandel joked that the only difference between the two companies was the name. Mandel ensured that he and NeXplore's employees retained access to White Nile's intellectual property by purporting to vote Thrasher and Coleman out of White Nile's management and by sending NeXplore employees to inspect Thrasher and Coleman's patent applications and SAQQARA documents. As an example, Mandel instructed Savard to discuss the White Nile patents, specifications, and algorithms with Thrasher and Coleman before hiring him at NeXplore.

Mandel argues that Coleman testified that there were no other search engines on the market with the functionality envisioned by Thrasher and Coleman. Mandel alleges that Coleman, in referring to other search engines on the market, "was of necessity including NeXplore," which implies that NeXplore was

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[5] *Wellogix, Inc.*, 716 F.3d at 877 (internal quotation marks and citations omitted).

not using White Nile's technology. But Coleman compared the NeXplore patent application to the White Nile patents and determined that there was "substantial duplication." Further, NeXplore's product had not launched at the time that Coleman testified.

The weight of expert testimony supported the conclusion that White Nile's and NeXplore's concepts were very similar. The bankruptcy court could properly and reasonably conclude that actual use was demonstrated. At the very least it appears that NeXplore "rel[ied] on the trade secret to assist or accelerate research or development."[6] Even if these facts were insufficient to support a finding of actual use, they support a reasonable inference of actual use.[7] NeXplore was formed by the same individuals, to create a substantially similar product, with funding from the same investors, based on intellectual property that those individuals had not invented and did not own. We affirm the bankruptcy court's ruling on this claim.

Mandel contests his liability under the Texas Theft Liability Act (TTLA). The TTLA imposes civil liability for "unlawfully appropriating property" as

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[6] *Id.*

[7] *See Global Water Grp., Inc. v. Atchley*, 244 S.W.3d 924, 930 (Tex. App.—Dallas 2008, pet. denied) ("Evidence of a similar product may give rise to an inference of actual use under certain circumstances.").

defined by Texas Penal Code § 31.05.[8] Under § 31.05, a person commits theft of trade secrets if, without the trade secret owner's consent, he knowingly (1) steals a trade secret, (2) makes a copy of an article representing a trade secret, or (3) communicates or transmits a trade secret.[9] Mandel asserts that he did not commit theft of a trade secret because he lacked the requisite *mens rea*. The bankruptcy court found that "Mandel specifically intended to take control of White Nile's intellectual property and use it to start up his own business" and that Mandel and his co-conspirators were "fully aware of exactly what they were doing." These conclusions are not clearly erroneous based on the record. Rather, the facts present a premeditated, calculated plan to siphon the intellectual property of White Nile for the benefit of NeXplore. Mandel counters that, as an officer of White Nile, he had the ability to give "effective consent" to the theft of the trade secret and thus he cannot be held liable. But this argument is unconvincing. A single officer and shareholder cannot give "effective consent" to breaching his own fiduciary duty to the company by

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[8] TEX. CIV. PRAC. & REM. CODE § 134.001-004. The civil remedy provided for by the TTLA for misappropriation of trade secrets was superceded by the Texas Uniform Trade Secrets Act (TUTSA), which took effect September 1, 2013. *Id.* § 134A.001-008. The TUTSA has no effect on the present litigation because the act only applies "to the misappropriation of a trade secret made on or after [September 1, 2013]." Uniform Trade Secrets Act, 83rd Leg., R.S., ch. 10, § 3, 2013 Tex. Gen. Laws 12, 14.

[9] TEX. PENAL CODE § 31.05.

stealing that company's trade secrets. Mandel was not "legally authorized" to consent to this own theft.[10] We affirm the bankruptcy court's ruling on this claim.

IV

Mandel raises issues that relate to Coleman but not to Thrasher or White Nile. In particular, he contends that the court erred in (1) finding that Mandel breached a contract with Coleman, (2) finding that he had misappropriated Coleman's trade secrets, (3) awarding Coleman attorneys' fees, and (4) holding that he fraudulently induced Coleman.

The bankruptcy court concluded that Coleman could not prevail on a breach of contract claim because he was not a third-party beneficiary of Mandel's nondisclosure agreement. The court's September 30, 2011 order reflects this conclusion, but the court's initial opinion suggests that Coleman prevailed on his breach of contract claim. The district court held that the bankruptcy court's conclusion of law with respect to breach of contract appeared to be a typographical error and was harmless. Mandel argues that awarding attorneys' fees based on breach of contract was error. However, the attorneys' fees awarded by the bankruptcy court were based on the theft of trade secrets claim, not the breach of contract claim. The bankruptcy court said the fees were "duplicative" of

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[10] TEX. PENAL CODE § 31.01(3) (defining "Effective Consent" as "consent by a person legally authorized to act for the owner").

the fees based on breach of contract. Any errant statement that Coleman proved breach of contract was harmless.

Mandel asserts that Coleman's misappropriation claim fails because Coleman assigned his intellectual property to White Nile. The courts below held that White Nile breached its contract with Coleman by failing to pay his salary and thus the assignment failed for lack of consideration. But Mandel is correct in asserting that a failure of a party to perform the contract does not void the obligations under that contract. As a bilateral contract, the consideration was the promise of performance not the actual performance.[11] However, this does not dispose of the issue because we may affirm a judgment upon any basis supported by the record.[12] The courts below also held that Mandel was liable to Coleman for fraud in the

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[11] *E.g., Roark v. Stallworth Oil & Gas Inc.*, 813 S.W.2d 492, 496 (Tex. 1991) ("Consideration is a present exchange bargained for in return for a promise."); *see also Westlake Petrochemicals, L.L.C. v. United Polychem, Inc.*, 688 F.3d 232, 239 (5th Cir. 2012) (stating that consideration requires mutual obligation or promises, not actual performance).

[12] *United States v. Chacon*, 742 F.3d 219, 220 (5th Cir. 2014) ("We may affirm the district court's judgment on any basis supported by the record.").

inducement and "a fraudulently induced contract is void."[13]

Mandel counters that Coleman's fraudulent inducement claims fail for two reasons: (1) Coleman did not timely file a fraud cause of action and (2) the misrepresentations that form the basis of the fraud claim came after Coleman agreed to the consulting contract. As to the first argument, Mandel claims that Coleman failed to include a fraudulent inducement claim in the joint pre-trial order and thus could not recover on that theory. Although Coleman may not have delineated his fraudulent inducement allegations as a specific count, he did include factual allegations of misrepresentations that Mandel made to entice Coleman into becoming a consultant for White Nile under a heading titled, "Representations to Coleman." The pretrial order included assertions that Mandel represented to Coleman that Mandel intended to invest of his own money, that Mandel had hired a local firm to create system documents, and that Mandel had already invested $100,000 of his own money. "[A] pleading, or pretrial order, need not specify in exact detail every

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[13] *Fazio v. Cypress/GR Houston I, L.P.*, 403 S.W.3d 390, 419 (Tex. App.—Houston [1st Dist.] 2013, no pet.) (citing *Italian Cowboy Partners, Ltd. v. Prudential Ins. Co. of Am.*, 341 S.W.3d 323, 331 (Tex. 2011)).

possible theory of recovery—it must only give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests."[14]

Mandel contends that Coleman's failure to include these allegations in the first version of his complaint barred him from subsequently alleging these facts in the pre-trial order. But it is well established that a pre-trial order "supersede[s] all prior pleadings and 'control[s] the subsequent course of the action.'"[15] "Once the pretrial order is entered, it controls the scope and course of the trial."[16] Further, Mandel signed the pre-trial order and did not object to the inclusion of these allegations at the time of the order, and any argument regarding their propriety is waived.

Mandel's final assertions of error on this issue are that five of the six alleged misrepresentations occurred after Coleman signed his consulting agreement and therefore could not serve as the basis for a fraudulent inducement claim. This is incorrect. Coleman testified that at least three of the six alleged mis-

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[14] *Thrift v. Hubbard*, 44 F.3d 348, 356 (5th Cir. 1995) (internal quotation marks and citation omitted).

[15] *Rockwell Int'l Corp. v. United States*, 549 U.S. 457, 474, 127 S. Ct. 1397, 167 L. Ed. 2d 190 (2007) (citing *Syrie v. Knoll Int'l*, 748 F.2d 304, 308 (5th Cir. 1984) (internal quotation marks omitted)).

[16] *Kona Tech. Corp. v. S. Pac. Transp. Co.*, 225 F.3d 595, 604 (5th Cir. 2000).

representations found by the bankruptcy court occurred prior to Coleman signing his consulting agreement on October 1, 2005. Coleman testified that he was told that Mandel had made a $100,000 investment by both Mandel and Thrasher in September 2005. Coleman testified that the representation that Mandel had arranged for a $1 million investment for the Manila development team occurred in September 2005. He testified that he was told that White Nile would hire a local firm, to be paid by Mandel in cash, to create system documents for White Nile, also in September 2005. The other three misrepresentations found by the bankruptcy court occurred either before or at the same time that Coleman signed his contract. Coleman testified that he was told that Mandel had prepared pro-forma financial projections for White Nile "in or around the end of September, the beginning of October." He was also incorrectly told that Rod Martin was working full-time for White Nile in September, before he signed the contract. That most of the alleged misrepresentations occurred before Coleman signed his consulting contract is sufficient to uphold the bankruptcy court's finding of fraudulent inducement. To the extent that there is conflicting testimony on some of these statements or that some of these statements may have taken place after October 1, 2005, the bankruptcy court found Coleman's testimony that the events took place before he signed the contract to be credible, and nothing in the record discredits this finding or shows that the bankruptcy court committed clear error in making this finding. Mandel's second ground for reversing the district court fails. We affirm the judgment on these issues as well.

V

Mandel assigns error regarding various other causes of action alleged by Thrasher and Coleman.

A. Fraud as to Thrasher and White Nile

Mandel alleges that the bankruptcy court erred in finding fraud as to Thrasher and White Nile. The elements of fraud are: (1) a material misrepresentation was made, (2) it was false, (3) the speaker knew it was false or made it recklessly, (4) the representation was made with the intention that it be acted on by the other party, (5) the party acted in reliance, and (6) the party suffered injury.[17] The bankruptcy court found three statements by Mandel to be fraudulent: that Mandel had invested $300,000 in White Nile, an investor had placed $1 million in escrow, and there was a team in the Philippines developing White Nile's intellectual property.

Mandel contends that there was no fraud because there was no evidence that Thrasher and Coleman would have developed the intellectual property absent these statements. The materiality of this argument is unclear. To the extent that it pertains to the question of whether there was injury, there was evidence of an injury. While at NeXplore, Mandel was able to attract investments of more than $18 million to develop the intellectual property that belonged to

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[17] *Johnson & Higgins of Tex., Inc. v. Kenneco Energy, Inc.*, 962 S.W.2d 507, 524 (Tex. 1998).

Thrasher and Coleman. Thrasher and Coleman's intellectual property clearly had value, and investors were available to fund a venture had Thrasher and Coleman developed the intellectual property absent Mandel. The bankruptcy court found that Thrasher was prevented from attempting to develop this technology because of his reliance on Mandel's misrepresentations. That finding is supported by the evidence.

B. Shareholder Oppression

The bankruptcy court found six acts of shareholder oppression, including that Mandel usurped White Nile's business opportunities, failed to prosecute White Nile's intellectual property, used litigation in an attempt to prevent Thrasher and Coleman from reclaiming their intellectual property, and created NeXplore to develop substantially similar intellectual property. Subsequent to the bankruptcy court's decision the Supreme Court of Texas held that there is no common law cause of action for shareholder oppression, concluding instead that such a claim may only be brought pursuant to Section 11.404 of the Texas Business Organizations Code.[18] Under the statutory definition of shareholder oppression:

> [A] corporation's directors or managers engage in "oppressive" actions under . . . section 11.404 when they abuse their authority over the corporation with the intent to harm the interests of one or

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[18] *Ritchie v. Rupe*, 443 S.W.3d 856, 2014 Tex. LEXIS 500, 2014 WL 2788335, at *6, 22 (Tex. Jun. 20, 2014).

> more of the shareholders, in a manner that does not comport with the honest exercise of their business judgment, and by doing so create a serious risk of harm to the corporation.[19]

Even under this new standard we conclude that Thrasher has met his burden to demonstrate shareholder oppression. Mandel does not challenge any of the findings of fact of the bankruptcy court on this issue. These findings of fact clearly lay out not only that Mandel abused his authority but that he did so with an intent to harm Thrasher's interests in White Nile. However, we note that on remand, Thrasher is not entitled to compensatory damages on this claim even though he has prevailed. The Supreme Court of Texas made clear that Section 11.404 "creates a single cause of action with a single remedy." [20] This remedy is not the award of compensatory damages but the "appointment of a rehabilitative receiver."[21] Therefore, on remand the district court should not award compensatory damages on the shareholder oppression claim.

C. Breach of Fiduciary Duty

The bankruptcy court found seven breaches of the fiduciary duty Mandel owed to White Nile. The elements of a breach of fiduciary duty claim are: (1) a fiduciary relationship between the plaintiff and de-

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[19] 2014 Tex. LEXIS 500, [WL] at *9.

[20] *2014 Tex. LEXIS 500, [WL]* at *10.

[21] *Id.*

fendant exists; (2) a breach by the defendant of his fiduciary duty; and (3) an injury to the plaintiff or a benefit to the defendant from the breach.[22] The bankruptcy court found that Mandel failed to prosecute White Nile's patent rights, failed to enforce nondisclosure agreements, released members from nondisclosure agreements, competed with White Nile by forming NeXplore, transferred funds from White Nile to NeXplore, disseminated White Nile's trade secrets, and failed to disclose to other officers and shareholders the formation of NeXplore. Mandel contends that he could not have breached his fiduciary duty because a resolution of the board of directors released him from his non-disclosure and non-compete agreements. This analysis elides that this resolution was adopted after Mandel purported to force Thrasher and Martin out of the company and purported to elect two of his allies to the board. In any event, a board resolution adopted by interested directors does not negate a breach of fiduciary duties.[23] Mandel has not shown that the bankruptcy court's detailed findings on this issue were incorrect.

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[22] *Lundy v. Masson*, 260 S.W.3d 482, 501 (Tex. App.—Houston [14th Dist.] 2008, pet. denied) (citing *Jones v. Blume*, 196 S.W.3d 440, 447 (Tex. App.—Dallas 2006, pet. denied)).

[23] *See, e.g., Gearhart Indus., Inc. v. Smith Int'l, Inc.*, 741 F.2d 707, 719-20 (5th Cir. 1984); *Clark v. Lomas & Nettleton Fin. Corp.*, 625 F.2d 49, 52-53 (5th Cir. 1980); *see also* TEX. BUS. ORGS. CODE ANN. § 21.418 ("Contracts or Transactions Involving Interested Directors and Officers").

D. Breach of Contract as to White Nile and Thrasher

Mandel argues that the bankruptcy court wrongly concluded that Mandel breached his non-disclosure agreements with both Thrasher and White Nile. He cites no authority in this section of his brief. This argument is waived for being insufficiently briefed.[24]

E. Conspiracy

Mandel contends that "[i]f the Court reverses the conclusions of fraud and of misappropriation and theft of trade secrets in favor of Coleman, then there is no underlying tort [for conspiracy] and the Court should reverse the conclusion of conspiracy." As we do not reverse the conclusions of fraud and misappropriation, we affirm the bankruptcy court's judgment regarding the count of conspiracy.

VI

The bankruptcy court awarded $1.7 million in actual damages. Mandel asserts that this award should be vacated because there was insufficient, credible evidence presented to support it. Thrasher and Coleman claim that the damages award should be increased

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[24] *United States v. Demmitt*, 706 F.3d 665, 670 (5th Cir. 2013) ("As Demmitt has cited no authority in support of her contentions . . . we hold this argument waived."); *N.W. Enters., Inc. v. City of Hous.*, 352 F.3d 162, 183 n.24 (5th Cir. 2003) ("A litigant's failure to provide legal or factual analysis results in waiver."); *see also* FED. R. APP. P. 28(a)(8)(A).

significantly because the evidence demonstrates that the actual value of either White Nile or the misappropriated trade secrets was significantly more than $1.7 million. Mandel also challenges the bankruptcy court's award of attorneys' fees to Coleman, and Thrasher and Coleman cross-appeal that the bankruptcy court erred in denying exemplary damages.

A. Compensatory Damages

Thrasher and Coleman offered a number of damage theories in the bankruptcy court. First, they advanced a "lost asset" or "lost profit" theory of damages, asserting that they could recover the value of the asset that they lost. An expert testified that the fair market value of White Nile was $56 million based on the sale of other, similarly situated start-up companies. The bankruptcy court rejected this evidence, concluding that the expert's "calculations of market value fail[ed] to adequately account for the extremely high failure rate of companies like White Nile." Thrasher and Coleman also offered evidence of the value of White Nile based on the investments made by the Laynes. Extrapolating from the Laynes' purchase of 75,000 shares in White Nile for $300,000, White Nile would have a value of $219 million. The bankruptcy court rejected this evidence because the Laynes had, like Thrasher and Coleman, "received false information about [Carrascoso's] investment in White Nile at the investor meeting in Arkansas" prior to their decision to invest.

Thrasher and Coleman introduced evidence of the value of NeXplore as evidence of either the value of the lost asset or the value of a fair licensing price.

NeXplore never made a profit but it was trading, at its lowest point, at approximately $0.30 per share on the "Pink Sheets." Using this price as a benchmark, Mandel owned $9.9 million in NeXplore stock. The bankruptcy court concluded that this value was on a "sharply downward trajectory," and that the evidence of the fair market value of NeXplore was "fuzzy." Finally, the bankruptcy court declined to base damages on the extent of the wrongful benefit to Mandel—$2,726,926 in salary from NeXplore and $725,789 in attorneys' fees from NeXplore—because it was "not necessarily an indication of value" for the misappropriated trade secret.

The bankruptcy court rejected each of Thrasher's and Coleman's theories of damages. It nevertheless assessed damages because "Thrasher and Coleman were damaged by the conduct of Mandel" and "should prevail on their claims." The court then awarded $1,000,000 to Thrasher and $400,000 to Coleman, without explaining the theory on which it relied or identifying the evidence that supported these awards.

The district court affirmed the damages in their entirety. The district court first held that "the bankruptcy court did not error [sic] in determining that the damages models advanced by claimants are not helpful in assessing damages under the facts of this case." The district court reasoned that the evidence adduced was not determinative of either the value of the trade secret as a lost asset or the value of the "reasonable royalty" that the owners of the trade secret would have been due. The district court nevertheless affirmed the award, reasoning that "[t]he nature of

Mandel's misappropriation made it virtually impossible to prove the amount of damages with reasonable certainty," but that this uncertainty should not completely prevent recovery. The district court concluded that assessing damages in this type of a case "require[d] a flexible and imaginative approach." Both sides appeal this determination.

> Damages in misappropriation cases can take several forms: the value of plaintiff's lost profits; the defendant's actual profits from the use of the secret, the value that a reasonably prudent investor would have paid for the trade secret; the development costs the defendant avoided incurring through misappropriation; and a reasonable royalty.[25]

Damages need not be proved with great specificity. A flexible approach is applied to the calculation of damages in a misappropriation of trade secrets case.[26] "Where the damages are uncertain . . . we do not feel that the uncertainty should preclude recovery; the plaintiff should be afforded every opportunity to prove

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[25] *Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867, 879 (5th Cir. 2013) (quoting *Bohnsack v. Varco, L.P.*, 668 F.3d 262, 280 (5th Cir. 2012)).

[26] *Id.* ("This variety of approaches demonstrates the flexible approach used to calculate damages for claims of misappropriation of trade secrets." (internal quotation marks omitted)).

damages once the misappropriation is shown."[27] It is sufficient that the plaintiff demonstrates "the extent of damages as a matter of just and reasonable inference" even if the extent is only an approximation.[28]

In the present case the bankruptcy court did not make clear the theory upon which it was relying to award damages nor did it explain the evidence supporting the amount of damages. While it is true that uncertainty should not preclude recovery in a trade secrets misappropriation case,[29] Thrasher and Coleman were required to produce enough credible evidence to show "the extent of the damages as a matter of just and reasonable inference," even if the "result be only approximate."[30] From the bankruptcy court's opinion we do not see an approximation—only numbers chosen by the court.

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[27] *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539 (5th Cir. 1974). While *University Computing* was a decision under Georgia law the Fifth Circuit has cited it favorably in regard to Texas trade secret law on multiple occasions. *See Wellogix*, 716 F.3d at 879; *Carbo Ceramics, Inc. v. Keefe*, 166 F. App'x 714, 722 (5th Cir. 2006).

[28] *DSC Communs. Corp. v. Next Level Communs.*, 107 F.3d 322, 330 (5th Cir. 1997) (internal quotation marks omitted).

[29] *Univ. Computing Co.*, 504 F.2d. at 539.

[30] *Wellogix*, 716 F.3d at 879 (citing *DSC Commcn's Corp.*, 107 F.3d at 330).

Thrasher and Coleman contend that our recent decision in *Wellogix, Inc. v. Accenture, L.L.P.*[31] supports awarding damages based on the evidence presented at trial. This is incorrect. In *Wellogix [**33]* , we affirmed a jury award of $26.2 million in compensatory damages in a Texas misappropriation of trade secrets case despite the defendant's arguments that the valuation was "too speculative."[32] The amount awarded was the amount that the plaintiff's damages expert had testified the company was worth, after deducting the cost of licensing fees.[33] Unlike the present case, the trier of fact calculated the damages award by crediting the evidence presented at trial. Here, the bankruptcy court awarded a damages figure that does not appear to be based on any of the damages models presented.

Rather, the bankruptcy court justified its damages award with a sole citation: a reference to a treatise on uncertainty in damages in Texas law that relied on a handful of decades-old Texas court of appeals cases that predominantly involved [*391] personal injury torts. The district court affirmed the awards with a citation to one of those personal injury cases. Neither of these citations justifies the damages award here. Even under our "flexible approach" to damages in a misappropriation of trade secrets case, the damages awarded must have some rational relationship to the evidence presented.

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[31] 716 F.3d 867 (5th Cir. 2013).

[32] *Id.* at 880.

[33] *Id.* at 879.

Thrasher and Coleman alternatively argue that we should independently increase the damages awarded on the basis of the evidence that the bankruptcy court rejected. We decline to do so.

Because neither the bankruptcy court nor the district court explained the evidentiary and legal basis for the damages awarded, we are unable to review the damages adequately. Because, however, Thrasher and Coleman did suffer some damage, we vacate the award of compensatory damages and remand to the bankruptcy court so that it may either conduct an additional evidentiary hearing on the issue of damages or explain its award of damages on the basis of the evidence in the present record.[34]

B. Attorneys' Fees

Mandel challenges the award of attorneys' fees to Coleman. We review the amount of attorneys' fees granted by a bankruptcy court for an abuse of discretion.[35] In the initial bankruptcy court opinion the

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[34] *See, e.g., Lebron v. United States*, 279 F.3d 321, 329 (5th Cir. 2002) (remanding issue of damages because court could not determine, from trial court's opinion, whether the calculation of damages was correct); *Great Pines Water Co. v. Liqui-Box Corp.*, 203 F.3d 920, 925 (5th Cir. 2000) ("Because we cannot determine [the basis for the damages award] we must vacate the award and remand for a partial new damage trial."); *see also MBM Fin. Corp. v. Woodlands Operating Co.*, 292 S.W.3d 660, 665 (Tex. 2009).

[35] *In re Repine*, 536 F.3d 512, 518 (5th Cir. 2008).

court awarded $705,000 to the Law Offices of Elvin E. Smith. Mandel alleges that these fees were errantly awarded on the basis of Coleman's breach of contract claim. But this is incorrect. The bankruptcy court explained in its opinion that the primary basis for the fees is the theft of trade secrets claim. The court stated that "90% of [the claimed attorneys' fees] relates to their theft of trade secrets claim, which is duplicative (at least in part) of their claim for attorneys' fees and costs based on breach of contract." In the accompanying order, the bankruptcy court found that Coleman "ha[d] established claims against Mandel for fraud, conspiracy, and misappropriation or theft of trade secrets." The $705,000 in attorneys' fees for Elvin E. Smith could only have been based on the theft of trade secrets claim.[36] The bankruptcy court did not abuse its discretion in awarding these fees.

C. Exemplary Damages

Thrasher and Coleman also assert that courts below erred by failing to award exemplary damages. Under Texas law, with exceptions not relevant here, "exemplary damages may be awarded only if the claimant proves by clear and convincing evidence that the harm with respect to which the claimant seeks recovery of exemplary damages results from . . . fraud . . . malice . . . or . . . gross negligence."[37] The bankruptcy

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[36] *See* TEX CIV. PRAC. & REM. CODE § 134.005(b) ("Each person who prevails in a suit under this chapter shall be awarded court costs and reasonable and necessary attorney's fees.).

[37] *Id.* § 41.003.

court held that exemplary damages were inappropriate because the Claimants had failed to prove malice. But even if the bankruptcy court erred by failing to consider fraud or gross negligence, exemplary damages are inherently discretionary. "[T]he determination of whether to award exemplary damages and the amount of exemplary damages to be awarded is within the discretion of the trier of fact."[38] Claimants have not shown that it was an abuse of discretion not to award such damages.

VII

Thrasher and Coleman argue that emails prepared by an attorney, Jeff Travis, who was then counsel for both White Nile and Mandel, were wrongly excluded by the bankruptcy court on the basis of attorney-client privilege. To reverse based on an evidentiary ruling of a bankruptcy court, the court must have abused its direction [39] and must have prejudiced the substantial rights of the objecting party.[40] Thrasher and Coleman assert that these documents supported their claim for exemplary damages. In particular, the emails "relate to impeaching Mandel about his testimony regarding his knowledge, participation and direction in the [bar grievance] procedure that was filed against Thrasher." However, it is not clear how the admission of these documents would

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[38] *Id.* § 41.010.

[39] *In re Repine*, 536 F.3d at 518.

[40] *Triple Tee Golf, Inc. v. Nike, Inc.*, 485 F.3d 253, 265 (5th Cir. 2007).

have altered the bankruptcy court's ultimate conclusion. Even without these documents, the bankruptcy court accepted that Mandel's purpose in filing the bar grievance was to "cow Thrasher by threatening his livelihood." Nevertheless, the bankruptcy court declined to award exemplary damages. As we have already affirmed that it was not an abuse of discretion for the bankruptcy court to decline to award punitive damages, the exclusion of these documents, even if erroneous, did not substantially prejudice the rights of the Claimants.

* * *

The judgment of the district court is AFFIRMED in part. We VACATE the award of compensatory damages and REMAND to the bankruptcy court for further proceedings consistent with this opinion.

NOT FOR PRINTED PUBLICATION

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

EWARD MANDEL,	§	
	§	
Appellant/Cross-appellee,	§	
	§	
	§	CIVIL ACTION
v.	§	No. 4-11-cv-774
	§	
STEVEN THRASHER, individually and derivatively on behalf of White Nile AND JASON COLEMAN,	§	
	§	U.S. Bankruptcy Court Case No. 10-40219
	§	
	§	
	§	
Appellees/Cross-appellants.	§	
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MEMORANDUM OPINION ON APPEAL FROM BANKRUPTCY COURT

Appellant, Edward Mandel (debtor) and Cross-Appellants Stephen Thrasher on behalf of himself and derivatively on behalf of White Nile Software Inc. ("White Nile") and Jason Coleman (both Claimants) appeal an order by the Bankruptcy Court overruling Mandel's objections to Thrasher and Coleman's claims and allowing both claims in smaller amounts than requested by the claimants. The court finds no

error in the bankruptcy court's rulings. The Bankruptcy Court's allowance and liquidation of the claims is therefore affirmed.

I. BACKGROUND

Debtor Edward Mandel and Steven Thrasher are former friends who in 2005 formed the corporation White Nile for the purpose of developing internet search technology. Thrasher conceived the idea for a new kind of search engine and, in July 2005 submitted a provisional patent application to the United States Patent and Trademark Office, titled "System Methods, and Devices for Searching Data Storage Systems and Devices." Thrasher is the only inventor listed on the application. [1] Mandel, an entrepreneur and business acquaintance of Thrasher represented that he had expertise with the internet databases that would be used to store an index for a search engine, was familiar with database search engines, and could help fund some of the start up costs of a new company. On July 13, 2005 Mandel, through his attorney, filed articles of incorporation with the Texas Secretary of State. Mandel became the president and treasurer of White Nile and Thrasher became the chief executive director and secretary. Additionally, Thrasher and

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[1] Thrasher subsequently filed provisional applications for two other patents, one titled "System Methods, and Devices for Searching Data Storage Systems and Devices" and the other titled "Real-Time Search Visualization". Thrasher is listed as the only inventor on the second patent application and both Thrasher and Jason Coleman are listed as inventors on the third patent application.

Mandel each received 26 million shares in exchange for the following consideration: (1) Thrasher agreed he would assign his then-existing provisional patent application as well as any future intellectual property to White Nile; and (2) Mandel agreed to develop White Nile's search engine at his expense by December 31, 2005.

Shortly thereafter, Thrasher and Mandel retained Jason Coleman as White Nile's "chief creative officer" to work on a graphic representation and prototype of the search engine, which Coleman later named the "SAQQARA project". Coleman agreed to defer his salary for the first several months while White Nile was seeking investors. Thrasher and Mandel also retained Mandel's associate Paul Williams as White Nile's interim financial officer and Thrasher's friend Rod Martin as a member of the board of directors. Martin thereafter recruited Skinner Layne to become involved with the company. Layne's parents, believing that it would be a great investment, invested $300,000 in White Nile in exchange for 75,000 shares.

By mid-December 2005, Mandel and Thrasher's relationship began disintegrating. Mandel decided that he, instead of Thrasher, should be White Nile's chief executive officer and began accusing Thrasher of entering into agreements with others without informing him. On December 18, 2005, Skinner reserved NeXplore.com as a domain name. Mandel, Thrasher, and Coleman had all contemplated changing the company's name to NeXplore a few months prior. In late December 2005, Mandel, Williams, and Skinner signed corporate documentation purporting to remove Thrasher from White Nile's board of directors as well

as a document declaring that White Nile was no longer a going concern. The document also purported to release everyone from various non-competition and non-disclosure agreements they had all signed with White Nile.

On January 17, 2006, Skinner submitted documents to the Texas Secretary of State forming the new entity, NeXplore Technologies. NeXplore was to develop search engine technology integrated with social networking. NeXplore's business plan was virtually identical to White Nile's. Mandel convinced the Laynes to transfer their investment from White Nile to NeXplore and, in February 2006, caused White Nile to file Coleman's SAQQARA project documentation for copyright protection.

In January and February 2006, Coleman approached Mandel and Thrasher seeking payment for work performed for White Nile. Thrasher agreed to mortgage his house to pay Coleman. Mandel, however, brought suit against Coleman and Thrasher derivatively on behalf of White Nile in Texas state court. Coleman and Thrasher asserted counterclaims against Mandel for breach of fiduciary duty, breach of contract, conversion, theft of corporate opportunities, and theft of trade secrets. In the midst of the state court litigation, the parties reached a tentative settlement on October 17, and 19, 2007. They announced the settlement in open court, but Mandel later withdrew from the settlement. The state court eventually entered a summary judgment order holding that the settlement agreement was unenforceable.

On January 25, 2010, Mandel filed a petition for Chapter 11 Bankruptcy in the Eastern District of Texas. Mandel listed the value of his 33 million shares in NeXplore as "unknown" in his bankruptcy schedules. Thrasher submitted a general unsecured claim in the amount of $56 million on behalf of himself and derivatively on behalf of White Nile and Coleman submitted a general unsecured claim in the amount of $25 million. [Claim Nos. 20, 32]. In their proofs of claim, Thrasher, Coleman, and White Nile assert the following claims: (1) theft or misappropriation of trade secrets in violation of the Texas Theft Liability Act, Tex. Civ. Prac. & Rem. Code § 134.001 et seq; (2) breach of contract; (3) breach of fiduciary duty; (4) fraud and fraudulent inducement; and (5) oppression of shareholder rights. Thrasher and Coleman also requested that the Bankruptcy Court make findings regarding the ownership of the assets of White Nile, specifically in regards to its intellectual property. Mandel objected to all these claims and asserted various counterclaims against both Thrasher and Coleman. [Docs. # 281, 282, 283 [2]].

In essence, Thrasher contended that he developed valuable intellectual property, and, based on Mandel's misrepresentations, assigned that property to their newly formed company White Nile. Mandel then, in concert with others, purported to act for White Nile to release himself and others from nondisclosure agreements so that he could misappropriate those trade secrets for use by his new corporation

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[2] Unless otherwise noted, all references to documents refer to those filed in Bankruptcy Case Number 10-40219.

NeXplore. Those actions prevented Thrasher from realizing his value from his inventions. Coleman alleged that he was fraudulently induced by Mandel to enter into a consulting agreement with White Nile and was deprived of compensation for his work and his interest in the intellectual property as a co-inventor. Mandel denied these claims, asserting among other things that NeXplore was formed to develop an internet search engine concept with an entirely different web-based inference.

The Bankruptcy Court tried Mandel's objections to the claims of Thrasher, Coleman and White Nile on November 22 and 23, 2010; December 20 and 21, 2010; January 3, 5, 7, 14, 21, and 31, 2011; and February 16, 2011. The parties submitted closing arguments in writing.

On September 30, 2011, the Bankruptcy court entered an order overruling Mandel's objections to Thrasher and Coleman's claims and substantially allowing both claims, albeit in lesser amounts than that requested. [Doc. # 686]. That same day, the Bankruptcy Court issued Findings of Fact and Conclusions of Law holding that:

(1) The Bankruptcy Court had no jurisdiction over Mandel's counterclaims against Thrasher for legal malpractice and breach of contract in light of *Stern v. Marshall*, -U.S.- 131 S. Ct. 2594, 180 L. Ed. 2d 475 (2011);

(2) Thrasher and Coleman's claim for breach of the settlement agreement is barred by the doctrine of collateral estoppel as the underlying state court pre-

viously determinated as a matter of law that the parties failed to form an enforceable settlement agreement and Thrasher has not provided the court with legal or procedural authority that would support a reversal of the state court's decision;

(3) Mandel had no ownership interest in any intellectual property developed by Thrasher or Coleman during their tenure at White Nile;

(4) Thrasher's interest in the intellectual property assigned to White Nile reverted to him when White Nile failed to prosecute the provisional patent applications by filing timely non-provisional (utility) applications as provided by the Assignment;

(5) Mandel's shares in White Nile fail for lack of consideration as he did not tender the promised performance namely, develop White Nile's intellectual property at his own expense;

(6)Mandel as an officer of White Nile breached his fiduciary duties to White Nile as well as his fiduciary duties to Thrasher as a shareholder of White Nile and Coleman as a creditor of White Nile through the following specific conduct:

(a) failing to timely prosecute White Nile's patent rights;

(b) failing to enforce the nondisclosure agreements executed by Williams, Skinner Layne, and Eddie Layne;

(c) releasing all officers and employees of White Nile from their obligations under the nondisclosure agreements;

(d) transferring the money invested in White Nile to NeXplore;

(e) competing with White Nile through NeXplore;

(f) disclosing or disseminating White Nile's intellectual property and trade secrets to third parties who were not acting for White Nile; and

(g) failing to disclose to other officers and shareholders the formation of NeXplore.

(7) Mandel made several fraudulent misrepresentations to both Thrasher and Coleman, upon which they relied to their detriment including:

(a) Mandel's intent to invest $300,000 of his own funds in White Nile to develop its intellectual property in order to induce Thrasher to go into business with him;

(b) Mandel hired an investor in the Philippines who placed at least $1 million in escrow and that there was a team of highly qualified individuals working to develop White Nile's intellectual property;

(c) White Nile was formed by an initial investment of $100,000 each by Mandel and Thrasher;

(d) Eduardo Carrascoso had formally agreed to invest at least $ 1 million in development efforts and that he had a development teach in place in Manila;

(e) White Nile had a business plan;

(f) White Nile had pro forma financial projections;

(g) The local firm that White Nile was hiring to create system documents was being paid by Mandel in cash; and

(h) Martin and Williams were working full-time for White Nile.

(8) Mandel breached his non-disclosure agreement with White Nile and Thrasher when he disclosed intellectual property containing or developed from the ideas of Thrasher to NeXplore or its employees of agents;

(9) Mandel, Skinner, and Skinner's parents, the Laynes, conspired to misappropriate White Nile and Thrasher's intellectual property by starting up NeXplore, transferring White Nile's cash and investment opportunities to NeXplore, taking control of the intellectual property developed by Thrasher, and using White Nile's intellectual property as at least a starting point to design internet search engine technology for NeXplore. Mandel also conspired with Williams and the Laynes to misappropriate Coleman's trade secrets and intellectual property for NeXplore's benefit.

(10) Mandel's breach of fiduciary duty, usurpation of White Nile's business opportunities, formation of NeXplore, failure to prosecute White Nile's intellectual property, use of litigation in an attempt to prevent Thrasher from reclaiming his intellectual prop-

erty, and NeXplore's development of similar intellectual property all constitute acts of shareholder oppression; and

(11) Mandel misappropriated Thrasher and Coleman's trade secrets when he ensured that NeXplore employees had access to White Nile's intellectual property and founded NeXplore which developed similar search engine technology, had a similar business plan, and used many of White Nile's employees and consultants.

[Doc. # 685].

With respect to damages, Claimants did not seek to establish a precise amount of damages for each individual claim. Rather, in their closing briefs, Claimants argued that the damages for each claim overlapped the damages sought for Mandel's misappropriation of intellectual property and trade secrets. [Doc. # 1190].

Based on the testimony and documentary evidence at trial, the Bankruptcy Court awarded Thrasher compensatory damages in the amount of $1 million, $300,000 for Thrasher's claims brought on behalf of White Nile, and $400,000 to Coleman. The court, however, concluded that Claimants were not entitled to an award of exemplary damages as Mandel did not act with the requisite malice. Finally, the court awarded Thrasher and Coleman attorneys' fees in the total amount of $1.5 million plus costs in the amount

of $255,989.48. [Doc. # 685]. Mandel appealed the order and Claimants cross-appealed. [3]

II. STANDARD OF REVIEW

District courts review bankruptcy court rulings and decisions under the same standards employed by federal courts of appeal: a bankruptcy court's findings of fact are reviewed for clear error, and its conclusions of law are reviewed de novo. *In re Nat'l Gypsum Co.*, 208 F.3d 498, 504 (5th Cir. 2000). With respect to a bankruptcy court's findings of fact, whether based on oral or documentary evidence, due regard must be given to the opportunity of the bankruptcy court to judge the credibility of the witnesses. Fed. R. Bankr. P. 8013; *Matter of Herby's Foods*, Inc., 2 F.3d 128, 131(5th Cir. 1993).

III. ISSUES PRESENTED

Appellant Mandel raises the following issues on appeal: (1) whether the Bankruptcy court erred in

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[3] The parties originally submitted fifty-five page briefs listing a combined number of 64 points of error allegedly committed by the Bankruptcy court. Believing the parties needed more focused briefing, the court ordered the parties to file amended briefs not to exceed thirty (30) pages excluding attachments. Each party was also directed to identify the five most important case dispositive issues in their respective briefs. [District Court docket, Doc. # 23]. *See* Fed. R. Bank. P. 8010(c)(permitting the court to modify the length of principal briefs).

awarding any damages to claimants where the damages were uncertain; (2) whether the Bankruptcy court erred in applying a "presumption of "use" of trade secrets, or otherwise finding such use; (3) whether the Bankruptcy court erred in finding Mandel violated the Texas Theft Liability Act; and (4) whether the Bankruptcy court erred in finding any claim in favor of Coleman [4]

Cross-Appellants Thrasher and Coleman raise the following issues on appeal :(1) whether the Bankruptcy Court exceeded its jurisdiction or authority and denied White Nile due process by allegedly excluding the White Nile state court Receiver from participating at trial; (2) whether the Bankruptcy Court abused its discretion by excluding Claimants' exhibits

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[4] Mandel's fifth point of error states "[t]he remaining issues are driven by the Court's conclusions with respect to the above issues; hence, there is no discrete issue that is "fifth" in importance. [District Court docket Doc. # 24 at 6]. Mandel, however, states that because the court has limited the pages in this appeal, he is not able to address issues of shareholder oppression, breach of contract for White Nile and Thrasher, fraudulent inducement, breach of fiduciary duty, conspiracy, divesture of stock for failure of consideration, and attorneys' fees. Simply mentioning an issue for appeal does not adequately brief the issue- each issue must contain applicable law and analysis. *Chevron USA, Inc. v. Aker Maritime*, Inc. 604 F.3d 888, 895 n. 6 (5th Cir. 2010). Accordingly, these issues are therefore waived as inadequately briefed. *Adams v. Unione Mediterranea di Sicurta*, 364 F.3d 646, 653 (5th Cir. 2004).

YF to YJ on the grounds of attorney-client privilege; (3) whether the Bankruptcy court awarded Claimants insufficient damages; (4)whether the Bankruptcy court erred in denying the Claimant's request for exemplary damages; and (5) whether the Bankruptcy court erred by holding that the doctrine of collateral estoppel barred Claimants from re-litigating their breach of settlement claim. [5]

For purpose of clarity, the court has consolidated several of the overlapping issues raised by the parties in the appeal and cross-appeal. The issues will be addressed in the following order: (1) the Bankruptcy court's holding regarding Thrasher and Coleman's claims of trade secret misappropriation under both common law and the Texas Theft Liability Act; (2) the Bankruptcy court's findings in favor of Coleman specifically; (3) the Bankruptcy Court's award on damages, both compensatory and exemplary; and (4) all other alleged points of error raised by Claimants.

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[5] Both parties submit that in light of the page limitation and alleged complexity of the case, oral argument may aid the court in understanding the issues presented. The parties cannot get around waiver by presenting their arguments orally as opposed to properly briefing them. The court has thoroughly reviewed the briefing and record below. With the exception of Mandel's fifth point of error which is waived, the court finds that the facts and legal arguments are adequately presented in the briefs and record and the decisional process would not be significantly aided by oral argument. *See* Fed. R. Bankr. P. 8012.

IV. DISCUSSION

A. The Claims Allowance Process

A claim against the bankruptcy estate is instituted by filing a proof of claim as provided by Section 501 of the Bankruptcy Code. 11 U.S.C. § 501; *see also* Fed. R. Bankr. P. 3002. A party may object to the proof of claim on any grounds specified in Section 502 of the Bankruptcy Code. 11 U.S.C. § 502(a). If objected to, the proof of claim initiates a "contested matter", placing the parties on notice that litigation is required to resolve the objection for the court to make a final determination on the allowance or disallowance of the claim. *Matter of Taylor*, 132 F.3d 256, 261 (5th Cir. 1998).

1. Burden of Proof in the Claims Allowance Process

A properly claim filed pursuant to Section 501 enjoys prima facie validity. Fed. R. Bankr. P. 3001(f); *see also Wilson v. Huffman (In re Missionary Baptist Found. of Am.)*, 712 F.2d 206, 212 (5th Cir. 1983). Even where an objection to a claim is raised, the bankruptcy court "shall allow such claim in such amount, except to the extent that" a grounds for disallowance provided by Section 502(b)(1)-(9) applies, and the objecting party presents sufficient evidence to overcome the claim's prima facie validity. *Matter of O'Connor*, 153 F.3d 258, 260 (5th Cir. 1998); 11 U.S.C. § 502(a). Once the objecting party produces such evidence, the burden of persuasion lies with the claimant who must establish the validity and amount of his claims by a preponderance of the evidence. *Id.*; *see also In re Rally*

Partners, L.P., 306 B.R. 165, 168-69 (Bankr. E.D Tex. 2003).

2. Texas Law Determines Whether the Claims Should Allowed and the Amount

A "claim" is defined as a "right to payment" recognized under state law. *Travelers Cas. & Sur. Co. of Am. v. Pac. Gas & Elec. Co.*, 549 U.S. 443, 450-51, 127 S. Ct. 1199, 1200-1205, 167 L. Ed. 2d 178 (2007). Thus, although interpretation of the Bankruptcy Code is a matter of federal law, unless a federal interest requires a different result, claim objections are resolved according to state law. *Id.*; *see also Matter of Topco, Inc.*, 894 F.2d 727, 740 (5th Cir. 1990); *In re Lorax Corp.*, 307 B.R. 560, 566 (N.D. Tex. 2004). Claimants here asserted numerous claims against Mandel arising under Texas law. The court must therefore determine whether, the claims asserted against Mandel are enforceable under Texas law. *See* 11 U.S.C. § 502(b)(1)(claims filed under Section 501 are deemed allowed except to the extent that such claim is unenforceable against the debtor and property of the debtor, under any agreement or applicable law). Mandel may assert any defenses available under Texas law. *Travelers*, 549 U.S. at 450, 127 S. Ct. at 1204.

B. Trade Secret Misappropriation

Mandel asserts that the Bankruptcy Court committed reversible error by finding that he misappropriated any trade secrets. Specifically, Mandel asserts there was no showing that he "knowingly" misappropriated the trade secrets as required by the Texas

Theft Liability Act and that the Court erred in inferring Mandel made use of the trade secrets.

1. Elements required to prevail on the cause of action

Under the Texas Theft Liability Act, a person who commits theft or the unlawful appropriation of property under the Texas Penal Code, is liable for damages resulting from the theft. Tex. Civ. Prac. & Rem. Code. 134.001 et seq. A person commits an offense if without the owner's effective consent, he knowingly, (1) steals a trade secret; (2) makes a copy of an article representing a trade secret; or (3) communicates or transmits a trade secret. Tex. Penal Code § 31.05(b). Misappropriation of trade secrets is also a common law tort cause of action under Texas law. *Trilogy Software v. Callidus Software, Inc.*, 143 S.W.3d 452, 463 (Tex. App.-Austin 2004, pet. denied). The elements of misappropriation are: (1) existence of a trade secret; (2) breach of a confidential relationship or improper discovery of a trade secret; (3) use of the trade secret; and (4) damages. *Id.* The Bankruptcy Court found that Mandel misappropriated Claimants' trade secrets in violation of the Texas common law without addressing Mandel's liability under the Texas Theft Liability Act. Accordingly, Mandel's first point of error regarding the mens rea necessary to prevail on a cause of action brought under the Texas Theft Liability Act need not be addressed.

A cause of action for misappropriation of trade secret under the common law only accrues when the trade secret is "actually used." *Computer Assocs. Int'l v. Altai, Inc.*, 918 S.W.2d 453, 455 (Tex. 1999). "Use"

of a trade secret means commercial use, by which a person seeks to profit from the use of the secret. *Atl. Group, Inc. v. Misty Prods., Inc.*, 820 S.W.2d 414, (Tex. App.-Hous. [14th Dist.] 1991, writ denied)(citing *Metallurgical Indus. v. Fourtek, Inc.*, 790 F.2d 1195, 1205 (5th Cir. 1986)). The product need not be in final form at the time of the misappropriation nor need the product be actually sold to constitute "use". *Dresser-Rand Co. v. Virtual Automation Inc.*, 361 F.3d 831, 839 (5th Cir. 2005). Rather, "any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to he defendant is a use." *Wellogix, Inc. v. Accenture, L.L.P.* __ F.3d __, 2013 WL 2096356 at *5 (5th Cir. May 15, 2013)(internal quotations omitted)(citing *Gen. Universal Sys., Inc. v. HAL, Inc.*, 500 F.3d 444, 451(5th Cir. 2007)). Thus, "marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret . . . all constitute use" *Id.* (internal quotations omitted). Evidence of a similar product may give rise to an inference of actual use under certain circumstances. *Global Water Group, Inc. v. Atchley*, 244 S.W.3d 924, (Tex. App.-Dallas 2008, pet. denied)(citing *Leggett & Platt, Inc. v. Hickory Springs Mfg. Co.*, 285 F.3d 1353, 1361 (Fed. Cir. 2002)).

2. Evidence of use

Mandel asserts that the Bankruptcy Court erred in inferring the misappropriated trade secret was "used" based on the similarity between White Nile's intellectual property and that developed by NeXplore

because Coleman's testimony allegedly revealed there was no such use.

In reviewing the Bankruptcy Court's factual findings, this court's role is not to weigh the evidence but merely to determine whether the finding "is plausible in light of the record viewed in its entirety." *In re Jacobsen*, 609 F.3d 647, 662(5th Cir. 2010)(quoting *Anderson v. City of Bessemer City*, 470 U.S. 564, 574, 105 S. Ct. 1504, 84 L. Ed. 2d 518 (1985)). Moreover, "[c]lear error is especially rigorous when we review a lower court's assessment of trial testimony because the trier of fact has seen and judged the witnesses." *Id.*(internal quotations omitted)(quoting *United States v. Castaneda*, 951 F.2d 44, 48 (5th Cir. 1992)).

There were ample facts present in this case for the Bankruptcy Court to find actual use. As the Bankruptcy Court noted, NeXplore, like White Nile, developed search engine technology. Experts testified that the concepts behind the search engines were very similar and the Bankruptcy Court found these experts to be credible. NeXplore used many of the same employees and consultants and had a similar business plan and, Mandel even joked that the only thing that was changing was the name of the company. Mandel also ensured that NeXplore's employee's had access to White Nile's intellectual property, including its patent applications and the SAQQARA documents. Based upon these facts, the Bankruptcy Court found that Mandel sought to profit from White Nile's trade secrets. [Doc. # 685 at 48 ¶ 84-85]. At trial, Coleman testified that there were no other search engines on the market with the functionality envisioned by Thrasher and Coleman, and Mandel asserts that this

assertion necessarily includes NeXplore. However, the fact that NeXplore did not have the opportunity to *actually profit* from its use of White Nile's intellectual property by completing the contemplated search engine does not foreclose a finding of "use". Accordingly, the Bankruptcy Court's finding of actual use was not clearly erroneous.

C. Award to Coleman

The Bankruptcy Court concluded that the preponderance of the evidence established that Coleman should prevail on his claims for fraud, breach of contract, conspiracy, and misappropriation or theft of trade secrets. [Doc. # 685 at 53 ¶ 99]. Mandel asserts that the Bankruptcy Court erred in ruling in favor of Coleman on any of those claims. The court will address each claim in turn.

1. Fraud

Mandel asserts that the Bankruptcy Court erred in finding he fraudulently induced Coleman to enter into the consulting agreement with White Nile because this claim was never asserted in Coleman's second amended state court petition attached to Coleman's proof of claim and therefore, not properly preserved for trial. Alternatively, Mandel asserts that Coleman could not have relied on these misrepresentations because they were made after he signed the consulting agreement on October 1, 2005.

As to the first alleged point of error, Mandel essentially asserts that the Bankruptcy Court improperly amended the pleadings sua sponte after the claims bar date set forth in 11 U.S.C. § 502(b)(9). Federal

Rule of Civil Procedure 16(d) provides that a pre-trial order "controls the course of the action unless the court modifies it." Incorporation of an unpled claim into the final pre-trial order amends the previous pleadings to state that claim, notwithstanding the claim bar date. *Matter of Perez*, 954 F.2d 1026, 1028 (5th Cir. 1992). Here, the pre-trial order stated, as one of Coleman's disputed issues of law, that an issue to be decided at trial was whether:

> (1) . . . Mandel represent[ed] to Coleman:
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> (I) that White Nile was formed by an initial investment of $100,000 each by Mandel and Thrasher?;
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> (ii) that Ed Carascoso had formally agreed to invest $2 million in development effort in Manilla
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> . . .
>
> (iv) that White Nile already had a business plan?; (v) that White Nile had pro-forma financial projections?
>
> . . .
>
> (vii) That the local firm that was hired to create system documents were being paid in cash?

[Doc. # 462 at 72].

Coleman also listed these alleged misrepresentations by Mandel in his "contentions" section of the joint final pre-trial order. [*Id.* at 32]. The fact that Coleman did not *expressly* state he asserts a claim against Mandel for fraudulently inducing him into a consulting agreement is not dispositive. *See Thrift v. Hubbard*, 44 F.3d 348, 356 (5th Cir. 1995)("pre-trial order need not specify in exact detail every possible theory of recovery-it must only defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests").

As to the timing of the alleged misrepresentations, the record reflects that several misrepresentations were made before Coleman signed his consulting agreement on October 1, 2005. [*See e.g.* Doc. # 626 11/23/10 Tr. at 143, 148]. This point of error is overruled.

2. Breach of Contract

The Bankruptcy Court's conclusion of law with respect to Coleman's breach of contract claim appears to be a typographical error. Although the Court found that Thrasher and White Nile prevailed on their breach of contract claim, the Court specifically found that Coleman did not, as he was not a third party beneficiary of Mandel's non-disclosure agreement with White Nile and therefore, had no standing to bring such a claim. [*Id.* at 39 ¶ 55]. The Court's September 30, 2011 Order recognizes this, holding that Coleman established claims against Mandel for fraud, conspiracy, and misappropriation or theft of trade secrets, not breach of contract. [Doc. # 686]. This minor typographical mistake contained within the Bankruptcy

Court's Conclusions of Law is harmless and cannot be the grounds for reversible error.

3. Misappropriation and Conspiracy

Mandel next asserts that Coleman's misappropriation and conspiracy claims fail as Coleman assigned all of his intellectual property to White Nile. Accordingly, Coleman had no property which Mandel could have misappropriated or conspired to misappropriate. Pursuant to the consulting agreement, Coleman agreed to produce a demonstrative version of the search engine and ultimately a prototype in return for an annual salary of $133,000. Coleman also agreed to assign his work product, including patentable ideas to White Nile. [Doc. # 685 at 7 ¶ 25-27]. As noted by the Bankruptcy Court, White Nile breached its consulting agreement with Coleman by failing to pay him for the work he performed. [*Id.* at 28 ¶ 17]. Coleman's assignment therefore failed for lack of consideration. *Fed. Sign v. Tex. S. Univ.*, 951 S.W.2d 401, 409 (Tex. 1997) *superseded by statute on other grounds as stated in Gen. Servs. Comm'n v. Little-Tex Insulation Co.*, 39 S.W.3d 591, 593 (Tex. 2001)("A contract that lacks consideration, lacks mutuality of obligation and is unenforceable"). Accordingly, Coleman had intellectual property for Mandel to misappropriate.

D. Damages

Both Debtor and Claimants appeal the amount of damages awarded by the Bankruptcy Court. Debtor asserts no damages should have been awarded as Claimants did not prove their damages with a reasonable certainty. Claimants, on the other hand, allege that the Bankruptcy Court should have awarded

them tens of millions of dollars more. Claimants argued that the Bankruptcy Court failed to properly apply the lost asset theory in that it: based its analysis on the profitability or ultimate success of White Nile rather than on its current market value; and failed to consider the Laynes' purchase of 75,000 shares of White Nile stock as evidence of its value. Alternatively, Claimants assert that the Bankruptcy Court failed to determine damages based upon profits or benefits received by Mandel and his co-conspirators. The court finds no error in the Bankruptcy Court's damage calculations.

1. Types of damages available for trade secret misappropriation under Texas law

In an action for trade secret misappropriation brought under Texas law, a plaintiff can recover actual damages based on the value of what has been lost by the plaintiff or the value of what has been gained by the defendant. *Carbo Ceramics, Inc. v. Keefe*, 166 Fed. App'x 714, 722 (5th Cir. 2006). The value of what has been lost by the Plaintiff is usually measured by lost profits. *Id.* Lost profits, however, are only recoverable if the plaintiff introduces objective facts, figures, or data from which the amount of lost profits can be ascertained. *Id.* In some instances, courts have attempted to measure the loss suffered by the plaintiff in terms of the value of the trade secret. *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 535 (5th Cir. 1974). [6] Under this "lost asset theory", a

[6] While *University Computing* was a decision under the Georgia law of trade secrets, the Fifth Circuit has recognized that Georgia trade secret law mirrors

plaintiff is entitled to recover the market value of the asset at the time of the breach, not the lost profits that the asset could have produced in the future. *Fluorine on Call, Ltd. v. Fluorogas Ltd.*, 380 F.3d 849, 860 (5th Cir. 2004). In other words, the value of the asset represents what a buyer is willing to pay for the chance to earn the speculative profits. *Id.*

The second approach is to assess a value based upon what the defendant has gained as a result of the misappropriation. *Id.*; *see also Carbo Ceramics*, 166 Fed. App'x at 723. This can be measured a variety of different ways such as by calculating damages based on: (1) the defendant's actual profits resulting from the use or disclosure of the trade secret; (2) the value that a reasonably prudent investor would have paid for the trade secret; (3) the costs saved to the Defendant; and (4) a "reasonable royalty" measured based on what a willing buyer and seller would settle on as the value of the trade secret. *Carbo Ceramics*, 166 Fed. App'x at 723. The Fifth Circuit has declared that the "reasonable royalty" method is the most appropriate measure of damages where the trade secret has not been destroyed, the plaintiff is unable to prove a specific injury, and the defendant has gained no actual profits by which to value the worth of the secret which defendant misappropriated. *Id.; see also Calce v. Dorado Exploration, Inc.*, 309 S.W.3d 719, (Tex. App.-Dallas 2010, no pet.)(adopting the "reasonable royalty" approach).

Texas trade secret law. *Carbo Ceramics, Inc.*, 166 Fed. App'x at 722 n. 4.

2. The Bankruptcy Court Did Not Error In Determining that the Damages Models Advanced by Claimants are Not Helpful in Assessing Damages under the facts of this case

a. Testimony allegedly supporting Claimants' "lost asset" theory

Claimants allege that testimony from Brad Taylor and the Laynes' purchase of 75,000 shares of White Nile stock served as valuable evidence of White Nile's fair market value. Neither piece of evidence, however, was helpful in supporting Claimants' "lost asset" theory.

Taylor Testimony

At trial, Brad Taylor opined that White Nile and its intellectual property was worth $56.25 million at the time of Mandel's misappropriation. Taylor's report was reviewed by both Dr. Gilbert F. Amelio and Eric Jackson. Taylor arrived at the value by using comparable sales methodology and a Monte Carlo simulation approach while limiting the universe of comparables to high tech startups in the internet search field. The Bankruptcy Court stated it was not persuaded by Taylor's analysis or his expert report as his calculations of market value failed to adequately account for the extremely high failure rate of companies like White Nile. [Doc. #685 at 49 ¶ 88]. Claimants incorrectly allege that the Bankruptcy court erred in basing its analysis on the ultimate profitability or success of White Nile rather than its current market value. Taylor's approach looked only at internet search engine startups which had eventually reached

some level of success and marketability. Taylor's failure to adequately account for the extremely high failure rate of companies like White Nile indicates a flaw in his valuation of White Nile at the time of Mandel's misappropriation. The extremely high failure rate of companies like White Nile, which Dr. Amelio recognized to be at least 80%, is clearly a factor which would decrease the amount of money a buyer would have been willing to pay for the chance to earn speculative profits from White Nile. Any potential buyer of White Nile would have assessed the high risk in investing in a start up company that had not yet achieved profitability or marketed a product and adjusted the purchase price accordingly. Thus, the Bankruptcy Court did not improperly consider White Nile's possible future profits but rather, appropriately assessed Taylor's methodology in making his expert opinion.

The Laynes' stock purchase

Testimony at trial showed that on or about December 7, 2005, the Laynes invested $300,000 in exchange for 75,000 shares of White Nile. Claimants argue that the Bankruptcy Court erred in failing to use this transaction as evidence that White Nile had a market value of $219 million because a recent sale price of an asset is the "best evidence" of its market value. *Fluorine*, 380 F.3d at 860. The Bankruptcy Court, however, found this testimony was not credible evidence of White Nile's fair market value as the Laynes received false information about Eduardo Carrascoso's $6 million investment in the company at the investor meeting in Arkansas. [Doc. # 685 at 50 ¶ 92]. Claimants contend that the Bankruptcy Court

"confused its own findings" because the Laynes made their investment on December 7, 2005 while the investor meeting did not occur until a week later on December 15, 2005. [District court docket # 25 at 29]. Thus, according to Claimants, the Laynes made their investment without the influence of false information and therefore, their purchase is in fact credible evidence of White Nile's market value. The court does not agree.

According to the Bankruptcy Court's findings, Mandel told Thrasher as early as October 2005 that Eduardo had agreed to invest a total of $6 million in White Nile to develop the search engine. [*Id.* at 10 ¶ 42]. In all likelihood, this information was communicated to the Laynes before they made their investment on December 7, 2013 as any reasonable investor would inquire into the financial status of a company before making a $300,000 investment. Additionally, the Laynes were the parents of Skinner Layne, a man who was intimately involved in the start up of White Nile. Claimants point to no evidence showing that the Laynes conducted *any* due diligence prior to making their investment. The Bankruptcy Court had no reason to believe the Laynes's investment was the purchase price a non-insider would be willing to pay for the chance to earn speculative profits in White Nile.

b. Because Mandel did not destroy the trade secret, the "lost asset" approach does not work

Ultimately, the Bankruptcy Court determined that under the facts of this case, the "lost asset" theory was not helpful for determining damages. The

Bankruptcy Court's conclusion is in accord with Fifth Circuit precedent, which holds that the "lost asset" theory is only appropriate where the defendant has destroyed the value of the secret *ie.* by publication so that no secret remains. *Univ. Computing*, 504 F.2d at 535-36. Here, the record reflects that Mandel misappropriated Claimants' trade secrets for use by his company NeXplore. NeXplore never produced a product, and there is no evidence that the trade secret was destroyed. Claimants cannot establish some specific injury such as lost sales. Accordingly, the "lost asset" theory is "not a particularly helpful approach in assessing damages" under the facts of this case. *Id.*

c. Benefits received by Mandel and his co-conspirators

The Bankruptcy Court next attempted to determine damages based on what Mandel and his co-conspirators gained as a result of the misappropriation by using a "reasonable royalty" damages model-ie. what a reasonable royalty would have been had the parties negotiated a license ex ante- an approach the Fifth Circuit has determined to be most appropriate under the facts of this. *Carbo Ceramics*, 166 Fed. App'x at 723. In making this determination, the Bankruptcy Court considered the five factors set forth in *Carbo Ceramics*: (1) the resulting and foreseeable changes in the parties' competitive posture; (2) prices paid by licensees in the past; (3) the total value of the secret to the plaintiff, including the plaintiff's development cost and the importance of the secret to the plaintiff's business; and (4) the nature and extent of the use the defendant intended for the secret; and (5) whatever other unique factors in the particular case

might have been affected by the parties' agreement, such as the ready availability of an alternative process. *Id.*[Doc. # 685 at 51 ¶ 94-96]. After examining these factors, the Bankruptcy Court found there was no sound and reliable evidence from which to derive a dollar value for a license of these trade secrets. The trade secrets had never been licensed before nor had they even been fully developed. NeXplore had never even made a profit. Rather, as noted by the Bankruptcy Court, the market value of NeXplore appeared to be on a sharply downward trajectory.

Claimants also assert that the Bankruptcy Court should have assessed damages based upon Mandel's 33 million shares in NeXplore, his NeXplore salary of $2,726,926 as well as attorneys' fees expended during the litigation. As to the 33 million shares, by August 2010, a thin volume of less than 5,000 of NeXplore's shares per day were trading at only $.30 per share. [Doc. # 685 at 52 ¶ 96]. NeXplore never made a profit and, there is no evidence that there was *ever* a market demand to buy Mandel's 33 million shares of NeXplore. As to Mandel's salary and the attorneys' fees expended on litigation, this evidence is not necessarily an indication of NeXplore's value. As the Bankruptcy Court noted, such actions could very well have eroded NeXplore's value to investors. [Doc. # 685 at 50 ¶ 91]. Nor can Mandel's salary be an indicia of the actual profits he received, as it does not account for any expenses he incurred. *See Carbo Ceramics*, 166 Fed. App'x at 723 (value gained by Defendant can be measured based on the defendant's "actual profits" resulting from the use or disclosure of the trade secret).

3. Uncertainty of Damages does not Preclude Recovery of Damages

For all of the above reasons, neither approach advanced by Claimants was helpful in assessing damages under the facts of this case. Because damages are uncertain, Mandel argues that the Bankruptcy Court erred in awarding Claimants *any* damages. Under Texas law, damages must be established with "a reasonable degree of certainty". *Richter, S.A. v. Bank of Am. Nat'l Trust & Sav. Ass'n*, 939 F.2d 1176, 1188 (5th Cir. 1991). A party cannot recover for damages which are "speculative or conjectural." *Id.* Rather, the damages must be ascertainable by reference to "some fairly definite standard, established experience, or direct inference from known facts." *Id.* When evaluating trade secret misappropriation claims, however, the Fifth Circuit has expressly noted that uncertainty should not preclude recovery. *Univ. Computing*, 504 F.2d at 539. Rather, the plaintiff should be afforded every opportunity to prove damages once the misappropriation is shown. *Id.* After all, "every case requires a flexible and imaginative approach to the problem of damages" as "each case is controlled by its own peculiar facts and circumstances." *Id.* at 538.

Likewise, Texas courts have held that a party should not be barred from a damage award simply because of the difficulty in establishing damages. *McCulley Fine Arts Gallery, Inc. v. Partners*, 860 S.W.2d 473 (Tex. App.-El Paso 1993, no writ)(analyzing damages in context of a breach of contract case). In other words, while uncertainty as to the fact of legal damages is fatal to recovery, the uncertainty as to

the amount is not. *Davis v. Small Bus. Inv. Co. of Houston*, 535 S.W.2d 740, 743 (Tex. App.-Texarkana 1976, writ ref'd n.r.e.). As the Fifth Circuit noted:

> It is settled law that the courts tend to find some way in which damages can be proved and awarded where a wrong has been committed. Difficulty in ascertaining the amount of damages is not to be confused with the right of recovery. When wrongdoers, by their very actions, made it virtually impossible to prove damages precisely, they should not be heard to complain of the method of proof, if the method allowed by the trial court is reasonable under the facts and in the circumstances of the case. To hold otherwise would permit one to profit by his own wrong and to violate the law and avoid the penalty.

N. Tex. Producers Ass'n v. Young, 308 F.2d 235, 244-45 (5th Cir. 1962)(analyzing damages under Sherman Anti-Trust Act).

The Bankruptcy Court found that Thrasher and Coleman were damaged as a result of Mandel's conduct and that they should prevail on their claims for misappropriation or theft of their trade secrets. The nature of Mandel's misappropriation made it virtually impossible to prove the amount of damages with reasonable certainty. Having considered all the testimony and documentary evidence at trial, the Bankruptcy Court awarded damages based on its discretion as a fact finder. The court finds no error in this

method under the unique facts and circumstances of this case. *See e.g. Duron v. Merritt*, 846 S.W.2d 23, 26 (Tex. App.-1992, no writ)(recognizing that in certain tort cases such as personal injury, "[e]ach case must be measured by its own facts, and considerable discretion and latitude must necessarily be vested in the jury").

4. Exemplary Damages

Claimants allege the Bankruptcy Court erred in failing to award them any exemplary damages. Texas law allows a court to award exemplary damages if the claimant proves by clear and convincing evidence that the harm with respect to which the claimant seeks recovery of exemplary damages results from fraud, malice, or gross negligence. Tex. Civ. Prac. & Rem. Code § 41.003. Exemplary damages, however, are not automatic even where fraud, malice, or gross negligence are proven. *Id.* ("exemplary damages ***may*** be awarded only if the claimant proves by clear and convincing evidence . . .")(emphasis added). Accordingly, the determination of whether to award exemplary damages and the amount of exemplary damages to be awarded is within the discretion of the trier of fact. *Id.* § 41.010(b). The Bankruptcy court declined to award exemplary damages under the circumstances of this case and, this court does not find this holding to be an abuse of discretion.

E. Remainder of Claimants' Cross-appeal

Claimants raise a host of minor issues on their cross- appeal, none of which have any merit. The court will address each issue briefly.

1. Excusing the White Nile Receiver

Claimants allege that the Bankruptcy Court exceeded its authority by allegedly modifying the duties of the White Nile state-court appointed receiver, which they claim had the effect of depriving White Nile of its due process rights in representation by the receiver. The court finds that Bankruptcy Court was well within its discretion in excusing the receiver from participating in the claim objection proceedings.

Pursuant to Section 105(a) of the Bankruptcy Code, the Bankruptcy Court may "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." This power expressly includes the authority to issue an order to "ensure that the case is handled expeditiously and economically." 11 U.S.C. § 105(d)(2).

State court receiver Rosa Orsenstein filed a proof of claim on behalf of White Nile and originally appeared for White Nile in Mandel's bankruptcy case. [Claim # 26] [7]. As time passed, however, the Bankruptcy Court began expressing concern about Orenstein's role in Mandel's bankruptcy case and, in particular, the absence of any right under the Bankruptcy Code for Orenstein to be paid from Mandel's bankruptcy estate for her ongoing work based on a prepetition receivership order. Moreover, counsel for

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[7] Orenstein also asserts that she has incurred receiver fees, attorneys' fees, and costs since her appointment by the state court and has filed her own claims against Mandel's bankruptcy estate. Those claims, however, are not at issue on this appeal.

Claimants admitted that Thrasher's claim brought derivatively on behalf of White Nile was identical to the claim brought by Orenstein on behalf of White Nile. [Doc. # 614 Tr. 9/27/2010 at 19:2-5; 21: 6-10]. In light of the duplicative nature of both claims, the Bankruptcy Court entered a Scheduling Order excusing Orenstein from participating in the claims allowance process as receiver for White Nile unless Thrasher agreed to pay her fees and expenses. [*Id.* at 23:17-21; see *also* Doc. # 439]. Thrasher declined to do so.

The Bankruptcy Court properly exercised its authority in ensuring that the claim objection process was handled both expeditiously and economically by holding that two plaintiffs were not necessary to prosecute identical claims for the same beneficiary. 11 U.S.C. § 105(d)(2). White Nile's due process rights could not have been violated through this proper exercise of its discretion.

2. Exclusion of Exhibits YF-YJ

Claimants assert that the Bankruptcy Court erred in excluding Claimants Exhibits YF-YJ on the grounds of Mandel's attorney-client privilege. A lower court's evidentiary ruling may not be reversed unless it is erroneous and substantial prejudice results. The burden of proving substantial prejudice lies with the party asserting error. *F.D.I.C. v. Mijalis*, 15 F.3d 1314, 1318-19 (5th Cir. 1994). Claimants contend that these exhibits contain email strings which could have been used to impeach Mandel about his testimony regarding his knowledge, participation and direction in

filing a state bar grievance against Thrasher. [District court docket Doc. # 25 at 17]. According to Claimants, this evidence if admitted "certainly could have changed the court's decision that exemplary damages were not appropriate" presumably because it would have served as evidence of Mandel's malice. [*Id.* Doc. # 29 at 12]. The Bankruptcy Court, however, already recognized that Mandel's strategy was to "cow Thrasher by threatening his livelihood" and that "Mandel's testimony that he did not participate in filing the grievance, or that he did not intend to threaten Thrasher's livelihood, was contradicted by the documentary evidence." [Doc. # 685 at 19 ¶ 92]. Claimants description of these excluded exhibits does not add any other evidence unconsidered by the Bankruptcy Court in declining to award exemplary damages. Accordingly, Claimants have not met their burden of proving substantial prejudice.

3. Breach of Settlement Claim

Finally, Claimants contend that they were entitled to enforce a settlement agreement that had been dictated into the record in the state court proceedings and that the Bankruptcy Court erred in refusing to hear the claim on the basis of res judicata, collateral estoppel, and law of the case. Claimants, however, "condition the submission of this issue upon the Court's granting relief to Debtor by reversing the bankruptcy court's affirmative awards to the Claimants." [District Court Docket Doc. # 25 at 34 n. 32; 36]. Because the court has not reversed the Bankruptcy Court's awards to claimants, the court need not reach this issue.

V. CONCLUSION

The Bankruptcy Court did not err in overruling Mandel's objections to the claims of Thrasher, Coleman, and White Nile and allowing the claims in the amounts of $1 million for Thrasher, $300,000 for White Nile, and $400,000 for Coleman. The Bankruptcy Court's September 30, 2011 Order [Doc. # 686] is hereby **AFFIRMED.**

So **ORDERED** and **SIGNED** this **2** day of **July, 2013.**

/s/ Ron Clark

Ron Clark, United States District Judge

EOD
09/30/2011

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

IN RE:	§	
	§	
EWARD MANDEL,	§	CASE NO. 10-40219
	§	
Debtor.	§	(Chapter 11)

FINDINGS OF FACT AND CONCLUSIONS OF LAW REGARDING DEBTOR'S OBJECTIONS TO CLAIMS OF STEVEN THRASHER, JASON COLEMAN, AND WHITE NILE SOFTWARE, INC.

This case is before the Court on the objections of the debtor, Edward Mandel, to the claims of White Nile Software, Inc. ("White Nile"), Steven Thrasher, on his own behalf and derivatively on behalf of White Nile, and James Coleman. Coleman filed a claim against Mandel's estate in the amount of $25,000,000, Thrasher filed a claim in the amount of $56,000,000, and a receiver for White Nile filed a claim in the amount of $56,000,000. The Court exercises its core jurisdiction over this contested matter, *see* 28 U.S.C. §§ 157(b)(2)(B) and 1334, and makes the following findings of fact and conclusions of law, *see* FED. R. BANKR. P. 7052.

I. SUMMARY

The trial of Mandel's objections to the claims of Thrasher, Coleman and White Nile was the lengthiest trial of any sort conducted by this Court to date. Mandel and Thrasher are former friends who hired Coleman to help them develop an internet search technology. They imagined their business, White Nile, could rival Google and make everyone connected with White Nile incredibly rich. Instead, Mandel and Thrasher fell out shortly after forming White Nile. Mandel formed a new company to develop internet search technology that appeared very familiar to Thrasher and Coleman. Mandel, Thrasher, and Coleman have litigated with each other for years over whether Mandel stole the ideas of Thrasher and Coleman to form his new business.

Mandel (or those aligned with him) has filed complaints with the Texas Bar Associations and the U.S. Patent and Trademark Office ("USPTO") seeking to revoke licenses issued to Thrasher as well as an action alleging violations of the Racketeer Influenced and Corrupt Organizations Act, and a bankruptcy petition on behalf of White Nile. None of these complaints and petitions bore any fruit. In addition, the parties engaged in bitter litigation in state court in connection with claims asserted by and between Thrasher, Coleman, and Mandel, among others. The state court eventually appointed a receiver for White Nile to mediate between Mandel, Thrasher and Coleman. A dispute subsequently erupted over Mandel's responsibility to pay approximately half of the receiver's fees. Mandel, pleading poverty, filed this bankruptcy case.

II. FINDINGS OF FACT

A. Thrasher and Mandel Form White Nile

1. Thrasher has an undergraduate degree in engineering. He graduated from law school in 1997 and subsequently earned a master's degree in business administration. While in law school, he developed a friendship with Rod Martin. Thrasher and Martin remained close friends after graduating from law school.

2. Martin took a position as special counsel at a start-up company called PayPal. Martin profited handsomely when EBay purchased PayPal in 2002. Since leaving PayPal, Martin has been involved in the start-up of various companies. At the time of trial, Martin was running a hedge fund that invested in technology companies, among other things.

3. Thrasher specializes in intellectual property law. Thrasher worked at several law firms before starting his own practice.

4. Thrasher was an earnest young attorney working for a law firm in Dallas when he met Mandel in 2001. Mandel was a charming young entrepreneur who was involved in a small start-up company called Positive Solutions. Two years later, Positive Solutions hired Thrasher to write a patent application. Thrasher and Mandel's working relationship developed into a friendly social relationship.

5. Thrasher did not counsel Mandel as to any personal legal matters. Thrasher's expertise lies in intellectual property law, and he testified, credibly, that he is uncomfortable offering advice on matters outside of his expertise.

6. Thrasher opened his own law practice shortly after meeting Mandel. He has personally applied for more than ten patents since 2002. The present dispute relates to one of Thrasher's ideas. In particular, in or around May 2005, Thrasher conceived an idea for a new kind of search engine. Mandel invited Thrasher to a golfing tournament in mid-May 2005, and Thrasher shared his idea with Mandel at the tournament.

7. Mandel was excited about Thrasher's idea. Mandel represented to Thrasher that he had expertise with the internet databases that would be used to store an index for a search engine. He also represented to Thrasher that he was familiar with database search engines.

8. On May 25, 2005, Mandel visited Thrasher at Thrasher's house. They signed non-disclosure agreements, and Thrasher shared his idea more fully with Mandel. Mandel signed Thrasher's drawings during the meeting. However, Mandel did not share any of his own ideas with Thrasher. Mandel represented that he could support the project financially, but not inventively, since any invention Mandel generated would be claimed by his then-current employer.

9. Thrasher understood that Mandel had recently sold his interest in Positive Solutions for a profit and was looking for a new investment.

10. Following his meeting with Mandel, Thrasher put together a provisional patent application.[1] Thrasher submitted the application to the U.S. patent office on July 2, 2005, titled "System, Methods, and Devices for Searching Data Storage Systems and Devices." Thrasher listed himself, and only himself, as the inventor on the application.

11. At some point, Thrasher sought funding for his venture from a company called White Rock Capital. White Rock Capital declined to provide funding at that time. White Rock Capital expressed interest in revisiting the discussion after Thrasher developed a prototype.

12. On July 5, 2005, Thrasher and Mandel met for lunch. Several of Mandel's business associates attended the meeting. Mandel represented that he and his associates would develop a prototype for Thrasher's idea. Mandel represented that he would pay for the work, which they anticipated would cost approximately $300,000.

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[1] Thrasher testified that provisional applications are used to create a priority date but are not substantively examined by the patent office. Thrasher further testified that utility applications are more formal written documents, including drawings, that are examined for patentability. Thrasher was required to file a non-provisional (or utility) patent application within one year of filing the corresponding provisional application if he wanted to retain the priority date. 35 U.S.C. § 119(e)

13. Mandel and Thrasher decided to start a company called White Nile to hold and develop Thrasher's invention. Mandel testified at trial that he told Thrasher that he would front some of the company's start-up costs.

14. Mandel caused articles of incorporation to be filed with the Texas Secretary of State on July 13, 2005. Cathy Cleaveland, Mandel's personal attorney, prepared and filed the articles, which named Thrasher and Mandel as directors of White Nile. Thrasher was unaware that Mandel intended to incorporate White Nile and reviewed the documents after they were filed.

15. In addition to the formation documents, Cathy Cleaveland prepared a form consulting agreement and a form employment agreement for White Nile's use.

16. In August 2005, Thrasher obtained a trademark for White Nile.

17. Thrasher signed a consulting agreement with White Nile dated August 1, 2005, that named him a co-founder, inventor, and chief executive officer of White Nile. Thrasher filed a second provisional patent application on August 29, 2005 titled "System, Methods, and Devices for Searching Data Storage Systems and Devices." Thrasher listed himself, and only himself, as the inventor on the application.

18. Mandel signed a consulting agreement with White Nile dated October 1, 2005, that named him a co-founder and president of White Nile. Pursuant to

article VIII of the consulting agreement, Mandel assigned to White Nile any "patentable ideas," among other things, produced pursuant to the services provided under the agreement.

19. On or about October 10, 2005, Thrasher and Mandel signed a document entitled "Unanimous Consent in Lieu of Organizational Meeting of Directors of White Nile Software, Inc." (the "Unanimous Consent"). The Unanimous Consent elected Mandel as the president and treasurer of White Nile, and Thrasher as its chief executive officer and secretary. The Unanimous Consent further provided that Thrasher and Mandel would each receive 26 million shares of White Nile in exchange for the following consideration: (a) Thrasher agreed to assign his then-existing provisional patent application as well as any future intellectual property to White Nile; and (b) Mandel agreed, among other things, to develop White Nile's search engine at his expense by December 31, 2005.

20. Thrasher and Mandel employed family members to help start up White Nile. Mandel's wife was White Nile's bookkeeper, and Mandel used his home address for the business. Thrasher's father and father-in-law signed consulting agreements with White Nile and agreed to provide services to the fledgling company.

21. In or around September 2005, Mandel and Thrasher met with representatives of Meaningful Data Solutions ("MDS"). They agreed to negotiate an engagement agreement with MDS to help to develop

software for the White Nile search engine. MDS anticipated that the project would cost $216,500. Mandel told Thrasher he would pay MDS.

22. Mandel and Thrasher also met with an individual named Paul Williams. Mandel and Williams led Thrasher to believe that Williams was a licensed broker/dealer at Hughes-Roth Capital Markets. Thrasher understood that White Nile was retaining Hughes-Roth Capital Markets in order to secure the services of Williams.

23. On September 26, 2005, Thrasher signed a document entitled "Assignment" whereby he assigned his intellectual property relating to certain search engine technology to White Nile. The assignment provides in pertinent part: "Furthermore, should White Nile Software, Inc. fail to timely prosecute any such invention by failing to timely file appropriate responses to government entities, including the USPTO statutorily shortened response periods, all rights in the inventions or creations transferred to White Nile Software, Inc. are then void, and any rights remaining transfer back to me, and I may prosecute the applications other documentation needed, and this agreement shall have no effect as to those items." Thrasher signed the document as the inventor, and Mandel signed the document as the corporate representative for White Nile.

24. In early October 2005, Mandel and Thrasher agreed that Williams would be White Nile's interim chief financial officer, and they agreed to give Williams a small interest in White Nile. Thrasher and

Mandel anticipated that Williams would write a business plan for White Nile and raise money from investors.

B. White Nile Engages the Services of Coleman

25. Thrasher and Mandel agreed to retain Jason Coleman to work on the graphic representation of what the search engine might look like. Coleman signed a consulting agreement with White Nile that described him as "chief creative officer" and a co-founder of the company. The consulting agreement anticipated that Coleman would produce a demonstrative version of Thrasher's idea for a search engine by October 15, 2005 and a prototype by November 15, 2005.

26. The consulting agreement provided that Coleman would receive an annual salary of $133,000 and would report directly to Thrasher. In addition, the consulting agreement provided that Coleman would receive warrants for equity in White Nile if he completed the demonstration and prototype on schedule. Coleman agreed to defer his salary for the first several months while White Nile was seeking investors.

27. The consulting agreement signed by Coleman was substantially similar to the agreement signed by Mandel. Like Mandel, Coleman assigned his work product, including patentable ideas, to White Nile in the consulting agreement.

28. Coleman's first project was to create a program to demonstrate what White Nile's search engine would look like – that is, how queries would be made

and results displayed. Coleman gathered the information he needed through in-depth discussions with Thrasher and a review of Thrasher's patent applications. Mandel's sole contribution to the demonstrative program was to suggest a particular piece of music.

29. Coleman timely delivered the demonstrative version of White Nile's search engine as required by his consulting agreement with White Nile.

30. Coleman's next project was to create a prototype, that is, the basic framework that White Nile would need in order to create software. Coleman referred to his work on the prototype as the SAQQARA project. Thrasher testified that they used this name for the initial phase of White Nile's development, because Saqqara is the name of the first and oldest pyramid plateau in Egypt.

31. According to Coleman, programs such as the one he was working on for White Nile are not monolithic blocks of computer code. Internet programs are modular and involve different applications working together. Programmers mix and match "shelf" components with custom components, linking everything together with application programming interfaces.

32. Coleman kept Thrasher and Mandel informed of his progress on the SAQQARA project. He and Thrasher engaged in detailed discussions about the development of the prototype. Although Mandel had described himself to Coleman as a database expert, Mandel did not contribute to the development of the prototype in any substantial way.

33. Coleman and Thrasher debated the best interface for White Nile's search engine. Coleman's particular expertise is in user interfaces, and he convinced Thrasher to adopt some of his ideas. They then worked together to develop and submit a patent application for "realtime visualization."

34. Throughout October, November and December 2005, Coleman questioned Mandel and Thrasher about White Nile's business plan, funding, and structure. In October 2005, Mandel assured Coleman that White Nile had a business plan and detailed financial projections. Mandel also represented that he intended to pay MDS to create system documents and, when that fell through, to put the funds that would have been paid to MDS directly into White Nile.

35. Coleman did not believe "White Nile" was a good domain name. Thrasher was fond of the name, which he had chosen, but he was willing to change White Nile's name — so long as the new name was a good one.

36. On December 13, 2005, Thrasher submitted a third provisional patent application to the USPTO titled "Real-Time Search Visualization." Thrasher listed himself and Coleman as inventors on the application.

37. Despite timely completing the work assigned to him, Coleman did not receive any shares of White Nile.

38. Coleman testified at trial. His testimony about his work for White Nile and the events leading up to White Nile's demise was highly credible.

C. Mandel's Contacts in the Philippines

39. Mandel was acquainted with a young man called Nikki Carrascoso, who lived in the Philippines. Mandel represented to Thrasher that Nikki's father, Eduardo, had political connections that could allow White Nile to save money by developing its search engine in the Philippines.

40. When White Nile was unable to reach an agreement with MDS, Mandel represented to Thrasher and Coleman that Eduardo could do the same work for less money in the Philippines.

41. Mandel represented to Thrasher that Eduardo had agreed to invest in White Nile. Mandel repeatedly represented to Thrasher that Eduardo had hired a team of individuals with PhDs to develop a prototype of White Nile's search engine in the Philippines. In August 2005, Mandel sent Thrasher a message indicating that Eduardo was visiting from the Philippines and would be available to provide an update about the work he was doing for White Nile.

42. In October 2005, Mandel told Thrasher that Eduardo had agreed to invest a total of $6 million in White Nile to develop the search engine. Thrasher included this information in a written presentation for potential investors. Thrasher distributed the presentation to Mandel, among others, and Mandel's only correction was to change the spelling of Eduardo's name.

43. Mandel was handling the deal between White Nile and Eduardo, and Thrasher trusted Mandel completely at that time.

44. Nikki Carrascoso went to work for White Nile in or around November 2005 and provided a copy of his resume to Thrasher.

45. Mandel visited the Philippines in the fall of 2005. He represented to Coleman that he had met with the developers working for White Nile.

D. White Nile Engages Martin

46. In August 2005, Thrasher and Mandel were still looking for investors to provide "seed money" to White Nile. Thrasher contacted his friend, Rod Martin, around this time. Thrasher did not know whether Martin would personally invest in White Nile, but Thrasher hoped he would put them in contact with potential investors.

47. Thrasher described his ideas to Martin and invited Martin and his wife to visit him in Dallas. Martin visited Dallas on August 27, 2005, and met with Thrasher, Mandel, and Eduardo. Thrasher brought copies of his provisional patents to the meeting.

48. The provisional patents listed Thrasher, and only Thrasher, as the inventor. Martin testified, credibly, that Mandel described Thrasher as the inventor during the meeting. Martin's description of the meeting, and of Mandel's conduct during the meeting, was highly credible.

49. Martin believed White Nile had the potential to be a very successful company and offered his assistance. Thrasher and Mandel agreed that Martin would have a place on the board of directors as well as the board of advisors for White Nile.

50. By October 25, 2005, Martin was beginning to gather other individuals to serve on the board of advisors for White Nile. Martin also invited a young man named Skinner Layne to become involved in White Nile. Martin thought highly of Skinner's potential, and Mandel befriended him.

51. Skinner believed that White Nile would be a great investment for his parents, Eddie and Ellen Layne. Martin testified, credibly, that he cautioned the Laynes about the risks of investing in a start-up company. The Laynes nonetheless invested $300,000 in White Nile on or about December 7, 2005. In exchange, they received 75,000 shares of White Nile.

E. Thrasher, Mandel and Coleman Visit Manila

52. Thrasher, Mandel and Coleman went to the Philippines on or around November 13, 2005. Thrasher and Coleman were shocked to discover that no one had been working on White Nile's search engine.

53. For his part, Eduardo was surprised to discover that Thrasher thought he had escrowed $1 million to invest in White Nile. In fact, Eduardo had not invested any money in White Nile, did not plan to do so, and had not hired any developers.

54. Thrasher and Mandel attempted to negotiate an agreement with Eduardo during their visit to the Philippines. Eduardo expressed interest in providing services to White Nile in exchange for payments from White Nile in excess of $1 million.

55. Thrasher, Mandel and Coleman hurriedly arranged interviews with applicants for the project. Thrasher and Coleman discovered during the interviews that Mandel was not particularly knowledgeable about the type of database or programming necessary for Thrasher's search engine to work.

56. Coleman, Thrasher and Mandel discussed changing White Nile's name during their visit. They kicked around various possible domain names, including "Nexplore," but did not reach an agreement.

57. Mandel was involved with another struggling start-up company, Synergistic Technologies, when he went to Manila. Synergistic Technologies was contemplating locating a call center in Manila. Mandel charged the cost of his hotel and half of his airfare to Synergistic Technologies.

58. After returning to the United States, Thrasher received electronic messages from Bernadette Fuentes in which she attempted to re-negotiate the tentative, oral agreement Thrasher thought they had reached with Eduardo. They exchanged many messages but, ultimately, Eduardo declined to become involved with White Nile.

F. Mandel Suggests Changing Directions

59. On or around December 5, 2005, Mandel told Thrasher that he had a "great idea" for White Nile. Mandel explained that he wanted to focus on social networking rather than a search engine, and he suggested changing the name of White Nile to reflect the new focus.

60. In early December 2005, Mandel recruited Joseph Savard[2] to become the chief technology officer for White Nile. Mandel negotiated an agreement with Savard and communicated the terms to Thrasher and Coleman, among others. By December 20, 2005, Savard had an e-mail account with White Nile.

61. Savard initially focused on identifying the equipment that White Nile needed to acquire. After Mandel told him that he had acquired the domain name "MyCircle," Savard began conceptualizing how White Nile might integrate social networking concepts into its search engine.

G. The Investor Meeting

62. Williams conducted an investor meeting in Arkansas on December 15, 2005. He used the demonstrative materials developed by Coleman to showcase White Nile's search engine to potential investors.

63. The next day, December 16, 2005, Thrasher discovered that Williams was not actually licensed as a broker. Thrasher was well aware of the legal repercussions of a misrepresentation about Williams' status to potential investors and took immediate action to address what he viewed as a disaster.

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[2] Joseph Savard testified over several days during the trial. His demeanor on the first day was hostile and flippant. He appeared more cooperative and offered more complete testimony when he was recalled to the witness stand later in the trial.

64. Thrasher invited Martin, Skinner and Mandel, among others, to a birthday party at his home on December 17, 2005. Martin testified that Mandel and Skinner approached him during the party for a private discussion. Martin testified that they sat on either side of him and told him that Mandel would be a better chief executive officer than Thrasher. They told Martin that they wanted to usher Thrasher into a more "appropriate" position at White Nile. Martin's testimony about his conversation with Mandel and Skinner was highly credible.

65. Martin immediately told Thrasher about the conversation.

66. By December 17, 2005, it had become clear that there was still not a development team in place in the Philippines. It had become equally clear that Mandel did not intend to contribute any of his own funds to White Nile.

H. NeXplore Emerges

67. The next day, on December 18, 2005, Skinner reserved NeXplore.com as a domain name.

68. At or around the same time, Mandel began denying that Martin was a member of White Nile's board of directors. Mandel also began to accuse Thrasher of entering into agreements with family members and others without informing Mandel.

69. In late December 2005, Mandel sent Savard to Thrasher's house to review White Nile's patents as well as documents relating to the SAQQARA project.

70. According to Skinner, his role at White Nile had primarily consisted of attending a few meetings. He testified in a deposition that he was unfamiliar with the SAQQARA project and that he did not look at any of the attachments to the emails he received relating to the SAQQARA project. He also testified, more generally, that he was unfamiliar with White Nile's intellectual property or the patent applications prepared by Thrasher.

71. Savard testified that he did not accomplish much for White Nile because White Nile "blew up" shortly after his retention. Mandel told Savard that Thrasher (who Savard barely knew) was crazy and had embezzled money from White Nile.

72. Mandel recruited Savard to work for NeXplore at some point during late December or early January 2006. NeXplore offered Savard the same job title and the same salary as White Nile. Mandel also recruited Williams to work for NeXplore, where Williams would perform the same advisory role as he had at White Nile.

73. In late December 2005, Thrasher submitted instructions to White Nile's bank to make a payment to his father, Lawayne, to reimburse him for hardware he had purchased for White Nile. These instructions conflicted with instructions that Mandel submitted to the bank at around the same time directing the bank to place all of the funds in White Nile's account into a new account under Mandel's sole control. As a consequence of these conflicting instructions, the bank froze the account.

74. The funds in White Nile's bank account consisted of the Laynes' investment. When Thrasher discovered that Mandel had taken or was attempting to take the Laynes' investment, he contacted Martin, who acted swiftly. On the advice of counsel, Martin drew up a resolution of the board of directors dated January 5, 2006. The resolution declared Mandel's actions to be ultra vires and fraudulent and directed the return of Laynes' investment to White Nile's bank account.

75. Martin and Thrasher met Mandel at a coffee shop to discuss the situation. They had no idea that Mandel was forming a new company, NeXplore, or that he had recruited the Laynes to invest in NeXplore rather than White Nile. They discovered much later that, within weeks of its formation, NeXplore received $197,000 from the Laynes and $286,500 from Arkansas Investment, LLC, which the Laynes formed after the December 15, 2005, White Nile presentation.

76. On January 11, 2006, Mandel, Williams and Skinner signed corporate documentation purporting to remove Thrasher from his offices with White Nile. Mandel, as the sole remaining director of White Nile, signed a document appointing Skinner to serve as a director of White Nile. Mandel and Skinner then signed a document appointing Williams to serve as a director of White Nile.

77. On January 12, 2006, Mandel entered into an agreement with a law firm regarding representation of the then-directors of White Nile (Mandel, Williams and Lane) against Thrasher and Martin.

78. On or around January 16, 2006, Mandel, Williams and Skinner held a directors' meeting. They did not inform Thrasher or Martin of the meeting. At the meeting, Mandel, Williams and Skinner executed a document declaring that White Nile was no longer a going concern. The document also purported to release everyone from the various, non-competition, non-disclosure and non-competition agreements they had signed with White Nile. However, the document did not release White Nile or its shareholders from any obligations or liabilities relating to the rights of Thrasher and Coleman under their agreements with Mandel or White Nile – only Thrasher and Coleman could effect such a release.

79. The document signed by Mandel, Williams and Skinner specifically provided that White Nile was not releasing Thrasher from the assignment of his intellectual property to White Nile. Mandel did not, however, seek to preserve or protect White Nile's intellectual property. Mandel did not demand the return of White Nile's intellectual property from Williams, Savard, Skinner, or anyone else.

80. Mandel's actions caused the break-up of White Nile. He recruited Skinner and attempted to recruit Martin to support his takeover of White Nile. When Martin declined to support Mandel, Mandel convinced Skinner's parents to transfer their investment from White Nile to NeXplore.

81. On January 17, 2006, Skinner submitted documents to the Texas Secretary of State that formed a new entity, NeXplore Technologies. The formation documents named Skinner as the sole shareholder

and sole director. Mandel and Williams later became shareholders and directors, and Skinner's parents became investors. Skinner testified in a deposition that Mandel made all of the decisions regarding NeXplore's operations.

82. Williams created a business plan for NeXplore that was virtually identical to White Nile's business plan.

83. On or around January 18, 2006, the shareholders of White Nile, including Thrasher (who was not yet aware of NeXplore), instructed the bank to unfreeze White Nile's account and transfer all of the funds to a new account.

84. Savard testified that Mandel referred to NeXplore as just a name change. Savard admitted, however, that Mandel and NeXplore instructed him to hide from Thrasher that NeXplore was working on a search engine. In February 2006, at Mandel's direction, Savard began focusing on integrating a search engine into the social networking arena.

85. In February 2006, Mandel caused White Nile to file Coleman's SAQQARA documentation for copyright protection.

86. NeXplore, through later transactions, became a public company. Mandel is now NeXplore's chief executive officer. Williams and Skinner were officers of NeXplore until they resigned in June 2008. They started a new company together, and Skinner moved to Chile, where he resided at the time of trial.

I. Litigation Ensues

87. In January and February 2006, Coleman approached Mandel and Thrasher to seek payment for his work for White Nile. Thrasher agreed to mortgage his house to pay Coleman. Mandel delayed responding to Coleman's request for payment. Rather than respond, on February 4, 2006, Mandel caused White Nile to sue Coleman in Texas state court. In addition, on April 5, 2006, Mandel caused White Nile to sue Thrasher in Texas state court.

88. Coleman and Thrasher responded to the suits and asserted claims against Mandel and other third party defendants, including claims for breach of fiduciary duty, breach of contract, conversion, theft of corporate opportunities, and theft of trade secrets. NeXplore and Coleman intervened in the suit against Thrasher.

89. After the filing of the lawsuit against Thrasher, each of the respective parties, including Mandel, has amended their claims, counterclaims, and cross-claims numerous times.

90. During 2006, NeXplore was developing search engine technology. Mandel, who was then the chief executive officer of White Nile, took no action to protect White Nile's intellectual property from NeXplore or any other possible encroacher by filing timely utility or non-provisional patent applications.

91. Thrasher filed two non-provisional (or utility) patent applications relating to White Nile's search engine. Thrasher filed the first application referred to by the parties as the 299 patent, on June 30, 2006.

The 299 patent listed Thrasher as the sole inventor, and the patent office issued a patent on September 14, 2010. Thrasher filed the second utility patent application, referred to by the parties as the 802 patent, on December 14, 2006. The 802 patent listed Thrasher and Coleman as the inventors, and the patent office issued a patent to Thrasher and Coleman on November 25, 2008.

92. Shortly after the filing of the 299 utility patent application, in September 2006, Williams filed a grievance against Thrasher with the Texas State Bar. According to Skinner, the grievance was part of Mandel's strategy to cow Thrasher by threatening his livelihood. Mandel's testimony that he did not participate in filing the grievance, or that he did not intend to threaten Thrasher's livelihood, was contradicted by the documentary evidence.

93. Mandel's personal attorney, Cathy Cleaveland, assisted in preparing documents for the grievance proceeding against Thrasher. Mandel also paid for lawyers at a second firm to prosecute the grievance.

94. In addition to the complaint to the Texas State Bar, as part of Mandel's strategy, Layne filed a grievance against Martin with the Arkansas State Bar. The relevant State Bars eventually dismissed the grievances filed by Mandel and Layne.

95. On August 3, 2007, NeXplore filed a utility patent application entitled "System and Method to Provide a Search Advertisement Dragging System." On September 6, 2007, NeXplore filed two utility patent applications, one titled "System and Method for Providing Focused Search Term Results" and the

other titled "Folksonomy Weighted Search and Advertisement Placement System and Method."

96. In the midst of the state court litigation, the parties reached a tentative settlement on October 17 and 19, 2007. They announced the settlement in open court, but Mandel later withdrew from the agreement. The purported settlement involved an agreed judgment in the amount of $900,000 against Mandel, Skinner, Skinner's parents, Williams, and Williams' affiliated entities. Thrasher and Coleman agreed that they would not seek to enforce this judgment provided that they received payments from Mandel in the total amount of $450,000. NeXplore agreed to make these payments. In exchange, Thrasher and Coleman agreed to license their patents to NeXplore for a "royalty fee" of two percent of NeXplore's gross revenue for five years, payable quarterly, with a minimum quarterly payment of $2,500.

97. In January 2008, Mandel filed a complaint against Coleman and Thrasher, among others, alleging multiple causes of action under RICO. The United States District Court for the Northern District of Texas granted the motion of Coleman and Thrasher to dismiss the case on August 14, 2008.

98. On January 19, 2008, Thrasher filed an amended complaint in the ongoing state court litigation. NeXplore removed the amended complaint to federal court. The federal district court granted the motion of Thrasher and Coleman to remand the case back to state court in May 2008.

99. In June 2008, White Nile borrowed $60,000 from a shareholder in contemplation of a chapter 11

bankruptcy case. White Nile secured the loan with its intellectual property. Mandel signed the relevant documents as the chief executive officer of White Nile.

100. In July 2008, Mandel filed a bankruptcy petition for White Nile in the Northern District of Texas. Mandel and NeXplore thereby obtained a stay of the state court litigation. On September 16, 2008, the bankruptcy court granted Thrasher's motion to dismiss the petition.

101. The parties continued litigating over the settlement, or near-settlement, in state court. The state court eventually entered a summary judgment that the settlement agreement was unenforceable.

102. On May 29, 2009, the state court entered an agreed order appointing a local attorney, Rosa Orenstein, as the receiver for White Nile. On September 29, 2009, the state court entered an order approving Orenstein's designation of independent counsel and for payment of Orenstein's attorneys' fees. The September 29th order provided that the fees of Orenstein's independent counsel would be paid 47.5% by Thrasher and 52.5% by Mandel. Mandel, however, refused to pay his portion of independent counsel's fees and expenses, claiming that he lacked the funds to do so.

103. In May 2009, Mandel filed a grievance against Thrasher with the USPTO with respect to the first provisional patent application filed by Thrasher. Mandel contended that Thrasher had lied about the inventorship of the intellectual property. In an affidavit submitted to the USPTO, Mandel claimed he was the inventor of all of White Nile's intellectual property

and that and that Thrasher was merely White Nile's general counsel. The USPTO ultimately dismissed Mandel's complaint.

104. Mandel tempered his claims before this Court. He did not claim to have invented all of White Nile's intellectual property. He testified, instead, that he was a co-inventor of all ideas. Mandel's testimony directly conflicted with the testimony of Thrasher as well as the documentary evidence, such as Mandel's consulting agreement and the assignment by Thrasher of his intellectual property. Although Mandel appears to have obtained some understanding of White Nile's intellectual property through participating in so much litigation about it, Mandel's testimony before this Court lacked depth, detail, and accuracy regarding the nature of White Nile's intellectual property in comparison to the testimony of Thrasher and Coleman.

105. The Court finds and concludes that Mandel was not, in fact, an inventor or co-inventor of any of the intellectual property at issue.

J. Mandel Files a Bankruptcy Petition

106. Since 2006, NeXplore has paid Mandel a total of $2,726,926.61 in salary, commission and bonuses. NeXplore has also paid or incurred approximately $750,000 in legal fees by or on behalf of Mandel.

107. On January 25, 2010, Mandel filed a chapter 11 petition in this Court. The state court was poised to sanction Mandel for his failure to pay Orenstein when he filed for bankruptcy.

108. In his bankruptcy schedules, Mandel lists the value of his 33 million shares in NeXplore as "unknown." No professional valuation exists for NeXplore, and it had not yet made a profit as of Mandel's bankruptcy filing.

109. Orenstein appeared for White Nile in Mandel's bankruptcy case. Orenstein, Mandel, Thrasher and Coleman spent several months litigating with each other. The Court conducted numerous hearings on motions filed by the parties. As time passed, however, the Court began expressing concern about Orenstein's role in Mandel's bankruptcy case and, in particular, the absence of any right under the Bankruptcy Code for Orenstein to be paid from Mandel's bankruptcy estate for her ongoing work.[3]

110. On November 3, 2010, the Court entered a scheduling order on the objections to the claims filed by Thrasher and Coleman. The Court did not forbid Orenstein from participating in the claims allowance process as the receiver for White Nile, but excused her from any requirement to appear unless Thrasher agreed to pay her fees and expenses. Thrasher did not agree to pay Orenstein, and Orenstein ceased participating in the litigation between Mandel, Thrasher and Coleman.

111. Orenstein asserts that she incurred receiver fees, attorneys' fees, and costs since her appointment

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[3] Orenstein was not employed by Mandel's bankruptcy estate and, therefore, had no right to payment of her fees and expenses under § 330 of the Bankruptcy Code.

through March 15, 2011, in the total amount of $645,411.94. Orenstein and her attorneys have filed separate claims in Mandel's bankruptcy case. Those claims, and Mandel's objections to them, are not the subject of this trial.

112. The parties submitted a lengthy and wide-ranging joint pretrial order, which the Court entered on November 22, 2010. The pretrial order did not contain a statement of undisputed facts. Rather, the pretrial order set forth the parties' legal contentions, disputed issues of fact, and disputed issues of law.

113. The Court tried Mandel's objections to the claims of Thrasher, Coleman and White Nile on November 22 and 23, 2010; December 20 and 21, 2010; January 3, 5, 7, 14, 21 and 31, 2011; and February 16, 2011. At the conclusion of trial, the Court invited the parties to submit their closing arguments in writing. The Court specifically requested that the parties cite the evidence in the record that supports each of their claims.

114. Thrasher, Coleman and Mandel subsequently filed closing statements. In addition, Thrasher and Coleman filed proposed findings of fact, which contain citations to the exhibits introduced at trial and the testimony of the witnesses presented at trial.

115. To the extent any finding of fact may be construed to be a conclusion of law, the Court adopts it as such.

III. CONCLUSIONS OF LAW

1. Thrasher, Coleman and White Nile timely filed proof of their claims against Mandel pursuant to § 501(a) of the Code. Thrasher and Coleman attached copies of their state court complaints to their proof of claim forms. White Nile attached an addendum referencing the claims asserted in its own state court complaint and Thrasher's derivative counterclaims.

2. Mandel objects to the substance of the claims filed by Thrasher, Coleman and White Nile on numerous grounds.

3. Mandel's objections to the claims of Thrasher, Coleman and White Nile create a contested matter under Bankruptcy Rule 9014. *See* FED. R. BANKR. P. 3007.

4. A claim filed pursuant § 501 enjoys *prima facie* validity. *See* FED. R. BANKR. P. 3007(f). *See also Wilson v. Huffman (In re Missionary Baptist Foundation of America, Inc.),* 712 F.2d 206, 212 (5th Cir. 1983). To sustain an objection, a debtor must present sufficient evidence to overcome the claim's *prima facie* validity. If the debtor produces such evidence, then the burden shifts to the claimant to establish the validity of its claim by a preponderance of the evidence. *See In re O'Connor,* 153 F.3d 258, 260 (5th Cir. 1998). The claimant has the ultimate burden of proof. *In Re Fidelity Holding Co., Ltd.,* 837 F.2d 696, 698 (5th Cir. 1988).

5. In their proofs of claim, Thrasher and Coleman assert numerous claims against Mandel arising under Texas law, namely, (i) theft or misappropriation of

trade secrets; (ii) breach of contract, specifically, the nondisclosure agreements, the consulting agreement with Coleman, and the state court settlement; (iii) breach of fiduciary duty; (iv) fraud and fraudulent inducement; and (v) oppression of shareholder rights. Thrasher asserts claims on his own behalf and derivatively on behalf of White Nile. Thrasher and Coleman also request that this Court make findings regarding the ownership of the assets of White Nile (especially its intellectual property) as necessary to determine their claims. They seek to recover actual damages, attorneys' fees, and exemplary damages under Texas law.[4]

6. Mandel asserts counterclaims against Thrasher on his own behalf and derivatively on behalf of White Nile. In particular, Mandel asserts counterclaims against Thrasher for (i) breach of fiduciary duty, (ii) tortious interference with White Nile's prospective business relationships; (iii) conversion and civil theft, (iv) breach of contract; (v) legal malpractice, (vi) civil conspiracy, and (vii) copyright infringement.

7. Mandel also asserts counterclaims against Coleman on his own behalf and derivatively on behalf of White Nile. In particular, Mandel asserts claims for (i) breach of contract and (ii) copyright infringement.

8. The Court will address each of these claims in turn.

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[4] Coleman and Thrasher are not requesting an award from the Court with respect to their claims for injunctive relief and constructive trust.

9. As an initial matter, however, the Court must address its jurisdiction in light of the Supreme Court's recent decision in *Stern v. Marshall,* 131 S. Ct. 2594, 180 L. Ed. 2d 475, 2011 WL 2472792 (2011). The Supreme Court issued *Stern* after the trial in this case. The Supreme Court's analysis in *Stern* limits this Court's constitutional authority to determine counterclaims to matters that must necessarily be decided in ruling on a creditor's proof of claim. Several of the counterclaims asserted by Mandel fall outside of this new jurisdictional boundary.

10. First, Mandel's counterclaims against Thrasher for legal malpractice and breach of contract relate to Thrasher's performance of his duties as general counsel for White Nile. In light of *Stern,* the Court lacks the constitutional authority to decide these claims. Second, the Court need not reach Mandel's claims against Coleman and Thrasher for copyright infringement in order to determine the allowability of the claims at issue and, therefore, the Court lacks the constitutional authority to decide that claim as well.

11. Thrasher and Coleman run afoul of traditional notions of estoppel, finality and law of the case. These notions prevent re-litigation of their claim against Mandel for breach of the state court settlement agreement. *See Kaspar Wire Works, Inc. v. Leco Eng'g & Machine, Inc.,* 575 F.2d 530, 535-36 (5th Cir. 1978) (collateral estoppel, or "issue preclusion," "bars the relitigation of "issues actually adjudicated and essential to the judgment" in a prior litigation between the same parties."); *Daniels v. The Equitable Life Assurance Society of the U.S.,* 35 F.3d 210, 212 (5th Cir.

1994)). "the doctrine of issue preclusion "bars relitigation of any 'ultimate issue' of fact actually litigation and essential to the judgment in a prior suit, regardless of whether the second suit is based upon the same cause of action."); *Friend v. Provenza (In re Provenza),* 316 B.R. 177, n. 236 (Bankr. E.D. La. 2003) (summarizing the law of the case doctrine). As Mandel points out in his closing brief, the underlying state court previously determined, as a matter of law, the parties failed to form an enforceable settlement agreement. Thrasher has not provided this Court with legal or procedural authority that would support a reversal of the state court's decision.

12. The Court now turns to the remaining claims asserted by the parties.

A. Inventorship of the Intellectual Property at Issue

13. One of the core disputes in this adversary proceeding is who owns the patents Coleman and Thrasher applied for while working for White Nile. Thrasher and Coleman each assert they own all of the equitable and legal title to the intellectual property and trade secrets at issue. *See* 28 U.S.C. § 2201. Mandel, despite the USPTO's rejection of his inventorship claim, asserts that he was a co-inventor and has an ownership interest in the intellectual property.

14. To the extent Mandel has any interest in the intellectual property, his interest is property of the bankruptcy estate. *See* 11 U.S.C. § 541(a). This Court has jurisdiction to determine the extent of Mandel's interest, if any, in the 299 patent, the 802 patent, and

the other intellectual property developed during White Nile's short life. *See* 28 U.S.C. § 1334(e)(1).

15. A patented invention may be the work of two or more joint inventors. Because "[c]onception is the touchstone of inventorship," each joint inventor must generally contribute to the conception of the invention. *Burroughs Wellcome Co. v. Barr Labs., Inc.,* 40 F.3d 1223, 1227-28 (Fed. Cir. 1994). "Conception is the 'formation in the mind of the inventor, of a definite and permanent idea of the complete and operative invention, as it is hereafter to be applied in practice.'" *Hybritech, Inc. v. Monoclonal Antibodies, Inc.,* 802 F.2d 1367, 1376 (Fed. Cir. 1986) (quoting 1 ROBINSON ON PATENTS 532 (1890)). "To determine whether [a person] made a contribution to the conception of the subject matter of [a claim, the] court must determine what [the person's] contribution was and then whether that contribution's role appears in the claimed invention." *Ethicon, Inc. v. U.S. Surgical Corp. (Ethicon II*), 135 F.3d 1456, 1461 (Fed. Cir. 1998).

16. Mandel asserts that he contributed to the development of the 299 and 802 patents and, therefore, that he should have been listed as a co-inventor. The Court finds and concludes, however, that Mandel made no contribution to the ideas encapsulated in these patents. Mandel could not articulate a coherent explanation of 299 and 802 patents at trial and clearly did not have a firm and definite idea of the inventions. Further, one does not qualify as a joint inventor by merely assisting the actual inventor after conception of the claimed invention. *See Sewall v. Walters,* 21 F.3d 411, 416-17 (Fed. Cir. 1994); *Shatterproof Glass*

Corp. v. Libbey-Owens Ford Co., 758 F.2d 613, 624 (Fed. Cir. 1985) ("An inventor 'may use the services, ideas and aid of others in the process of perfecting his invention without losing his right to a patent.'" (quoting *Hobbs v. U.S. Atomic Energy Comm'n.,* 451 F.2d 849, 864 (5th Cir. 1971))).

17. Alternatively, Mandel asserts that White Nile owns the intellectual property developed by Coleman and Thrasher. With respect to Coleman, Mandel asserts that the consulting agreement he executed with White Nile resulted in an assignment of Coleman's interest in the intellectual property to White Nile. As discussed more fully below, however, White Nile breached its consulting agreement with Coleman by failing to pay him for all of his work, among other things. When one party to a contract commits a material breach of that contract, the other party is discharged or excused from further performance under Texas law. *Mustang Pipeline Co., Inc. v. Driver Pipeline Co., Inc.,* 134 S.W.3d 195, 196 (Tex. 2004).

18. With respect to Thrasher, Mandel asserts that White Nile has not released Thrasher from the terms of the assignment and, therefore, White Nile owns Thrasher's intellectual property. The terms of the assignment, however, provided for a reversion to Thrasher under certain circumstances. Under the terms of the assignment, Thrasher's interest in the intellectual property he assigned to White Nile reverted to him when White Nile failed to prosecute the provisional patent applications by filing timely non-provisional (utility) applications. Thrasher was forced to file utility applications himself as the deadlines were expiring.

19. The Court, therefore, concludes that Mandel has no ownership interest in the 299 patent, the 802 patent, or any other intellectual property or trade secrets they developed by Thrasher or Coleman during their tenure at White Nile.

B. Ownership of the Intellectual Property at Issue[5]

20. Thrasher also seeks a declaratory judgment that Mandel's shares in White Nile failed for a lack of consideration. Thrasher contends that Mandel did not provide all of the consideration required for the issuance of his shares of White Nile.

21. Mandel denies Thrasher's allegations. He contends that the fact that White Nile issued stock certificates to him is a binding admission that White Nile received all of the required consideration for the stock. He also contends that the statement of required consideration attached to the version of the Unanimous Consent introduced into evidence by Thrasher is forged or fraudulent.[6]

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[5] Thrasher and White Nile did not include this claim in their closing arguments. They did not, however, expressly waive or abandon the claim, and the Court addresses it out of an abundance of caution.

[6] Although Mandel contends that the statement of consideration is forged when Thrasher uses it against him, Mandel argues in the parties' joint pretrial order

22. Mandel failed to offer any credible evidence supporting his assertion that Thrasher has offered this Court a forged or fraudulent document. The Unanimous Consent t references the attached statement of consideration.

23. Moreover, Mandel has not provided any authority in support of his argument that the issuance of shares to him is a deemed admission that White Nile received all of the consideration required from Mandel. The documentary evidence reflects that Mandel had not paid for his stock at the time of issuance and that his consideration was a promise of future performance. Mandel did not tender the promised performance, namely, he did not develop White Nile's intellectual property at his own expense.

24. Mandel was not a co-inventor of any of Thrasher's intellectual property, as previously discussed, and he did not execute any assignment of intellectual property or trade secrets in favor of White Nile as consideration for his interest in the company.

25. The Court, therefore, concludes that Mandel's shares in White Nile fail for lack of consideration and that the White Nile stock is not property of this estate.

C. Breach of Fiduciary Duty

26. Thrasher, on his own behalf and on behalf of White Nile, asserts a breach of fiduciary duty claim

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that Thrasher's shares should fail for lack of consideration if Thrasher failed to assign his intellectual property to White Nile.

against Mandel.[7] Thrasher asserts that Mandel's conduct from and after December 2005 breached his duties of good faith, fairness, honesty, full disclosure, and loyalty as well as his duty to refrain from competing with White Nile and his duty not to usurp White Nile's corporate opportunities.

27. In order to prevail on a breach of fiduciary duty claim, a plaintiff must prove: (1) the existence of a fiduciary relationship between the plaintiff and the defendant; (2) a breach by the defendant of his or her fiduciary duty to the plaintiff; and (3) an injury to the plaintiff or benefit to the defendant as a result of the breach. *See Lundy v. Masson,* 260 S.W.3d 482, 501 (Tex. App. — Houston [14th Dist.] 2008, pet. denied). A plaintiff bears the burden of proving each element of his breach of fiduciary duty claim. *See, e.g., Avary v. Bank of Am., N.A.,* 72 S.W.3d 779, 792 (Tex. App.— Dallas 2002, pet. denied).

28. In this case, Thrasher alleges two sources of Mandel's fiduciary duty. First, Thrasher alleges that he and Mandel were joint venturers and, as such, Mandel owed him a fiduciary duty. The purpose of the joint venture, according to Thrasher, was to develop and market his intellectual property.

29. The Court, having considered the evidence and credible testimony, concludes that this alleged joint venture culminated in the formation of White Nile. The Court, therefore, concludes that Thrasher has

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[7] Coleman does not assert a breach of fiduciary duty claim against Mandel.

failed to establish a breach of fiduciary duty by Mandel based on a joint venture theory.

30. Thrasher also asserts that Mandel breached his fiduciary duties as an officer of White Nile. The parties agree that corporate officers and directors owe a fiduciary duty to the corporations they serve – in this case, White Nile. *International Bankers Life Insurance Co. v. Holloway,* 368 S.W.2d 567, 676 (Tex. 1963). Thrasher accuses Mandel of breaching his fiduciary duties to White Nile based on his version of events (*i.e.,* that Mandel took the intellectual property and trade secrets he had assigned to White Nile in order to start a competing company that Mandel would own and control).

31. Mandel responds with a similar claim against Thrasher. Mandel accuses Thrasher of breaching his fiduciary duties to White Nile based on his version of events (*i.e.,* that he is the inventor of White Nile's intellectual property, that White Nile became defunct due to Thrasher's antagonism toward Mandel, and that White Nile owns the intellectual property created by Mandel). Mandel also asserts that he did not usurp White Nile's corporate opportunities because it had no such opportunities after Thrasher's actions rendered the company defunct.

32. The Court does not agree with Mandel's version of events as a matter of fact. As the Court has previously explained, Mandel did not invent or co-invent any of the intellectual property at issue.

33. The preponderance of the evidence at trial established that Mandel and Thrasher became increasingly hostile after the trip to Manila in December

2005. Thrasher no longer believed that Mandel had any intention of investing his own money in White Nile or that Mandel's vaunted connections would lead to any substantial investment by third parties in White Nile.

34. As the antagonism emerged, alliances formed among White Nile's officers, employees and consultants. Martin and Coleman agreed with Thrasher. Skinner, who was young and only peripherally involved in White Nile, allied himself with Mandel. Williams, who Mandel had brought into White Nile, also allied himself with Mandel, as did Savard (perhaps unwittingly).

35. By the end of December 2005, Mandel had decided to part ways with the disillusioned Thrasher, Coleman and Martin. This decision might not have led to litigation if Mandel had simply walked away from White Nile. However, instead of walking away, Mandel used his allies to orchestrate a takeover so that he could obtain access to White Nile's investors, intellectual property and trade secrets.

36. Mandel attempts to minimize his conduct by asserting that White Nile was defunct when he formed NeXplore. However, even if White Nile had ceased to operate, Mandel's conduct violated his fiduciary duties to White Nile as well as White Nile's creditors and shareholders. Rather than seek to preserve White Nile's assets, Mandel transferred the Laynes' investments to NeXplore, recruited some of White Nile's key employees and consultants, copyrighted the SAQQARA documents created by Coleman, and attempted to take White Nile's intellectual property for

the benefit of his new company. These actions made it impossible for White Nile to pay its creditors, such as Coleman, or even to liquidate.

37. The directors and officers of a corporation owe a general fiduciary duty of fairness to shareholders in actions which affect the shareholders directly. *See Carrieri v. Jobs.com, Inc.,* 393 F.3d 508, 533-34 (5th Cir. 2004); *Newby v. Enron Corp.,* 188 F. Supp. 2d 684 (S.D. Tex. 2002). In addition, officers and directors of an insolvent corporation owe a fiduciary duty to creditors to assure that creditors get their fair share of the corporation's assets. *See Fagan v. La Gloria Oil and Gas Co.,* 494 S.W.2d 624, 628 (Tex. App.—Houston [14th Dist.] 1973, no writ). Thrasher and Coleman have established, by a preponderance of the evidence, that Mandel breached his fiduciary duties to White Nile as well as his fiduciary duties to Thrasher (as a shareholder of White Nile) and Coleman (as a creditor of White Nile) through the following specific conduct:

a. Failing to timely prosecute White Nile's patent rights;

b. Failing to enforce the nondisclosure agreements executed by Williams, Skinner Layne, and Eddie Layne;

c. Releasing all officers and employees of White Nile from their obligations under the nondisclosure agreements;

d. Transferring the money invested in White Nile to NeXplore;

e. Competing with White Nile through NeXplore;

f. Disclosing or disseminating White Nile's intellectual property and trade secrets to third parties who were not acting for White Nile; and

g. Failing to disclose to other officers and shareholders the formation of NeXplore.

38. Thrasher asserts, on behalf of White Nile, that White Nile is entitled to an award against Mandel for its actual damages as well as an award of any profit or benefit that Mandel received as a result of his breaches of fiduciary duty. Thrasher does not seek to establish a precise amount of damages. Rather, in his closing brief, he argues that the damages for breach of fiduciary overlap the damages White Nile seeks for Mandel's misappropriation of intellectual property and trade secrets.

D. Fraud/Fraudulent Inducement

39. Thrasher and Coleman each assert fraud claims against Mandel. Coleman accuses Mandel of making false statements in order to induce him to enter into a consulting agreement with White Nile. Thrasher asserts that Mandel fraudulently induced him to participate in a joint venture and the creation of White Nile in order to convert or misappropriate Thrasher's intellectual property. Thrasher, on behalf of White Nile, also asserts that Mandel fraudulently misrepresented the existence of an investor and developers in the Philippines.

40. Under Texas law, to establish fraud, a plaintiff must prove that (1) the defendant made a material representation; (2) the representation was false; (3)

when the defendant made the representation, the defendant knew it was false or made it recklessly without any knowledge of the truth and as a positive assertion; (4) the defendant made the representation with the intention that it be acted upon by the other party; (5) the party acted in reliance upon the representation; and (6) the party suffered injury. *E.g., Johnson & Higgins of Tex., Inc. v. Kenneco Energy, Inc.,* 962 S.W.2d 507, 524 (Tex. 1998).

41. A contractual promise made with no intention of performing may give rise to an action for fraudulent inducement. *Tony Gullo Motors I, L.P. v. Chapa,* 212 S.W.3d 299, 304 (Tex. 2006). A promise of future performance also may form the basis of a fraud claim if the promise was made with no intention of performing at the time the promise was made. *Formosa Plastics Corp. USA v. Presidio Eng'rs & Contractors, Inc.,* 960 S.W.2d 41, 48 (Tex. 1998).

42. Here, Thrasher asserts Mandel misrepresented material facts to him, such as his intent to invest $300,000 of his own funds in White Nile to develop its intellectual property, in order to induce Thrasher to go into business with him. Thrasher asserts that this representation was false when made and that Mandel had no intention of contributing funds to White Nile. Indeed, the preponderance of the evidence establishes that Mandel never intended to risk his own money on White Nile.

43. Thrasher, on behalf of White Nile, asserts that Mandel fraudulently represented that he had recruited an investor in the Philippines who had placed at least $1 million in escrow and that there was a

team of highly qualified individuals working to develop White Nile's intellectual property. Thrasher asserts that White Nile relied on these representations by dropping its negotiations with MDS to develop the "back end" of White Nile's search engine. Thrasher further asserts that White Nile relied on Mandel's representations by giving Mandel full access to the intellectual property and trade secrets being developed by Coleman and Thrasher.

44. Coleman asserts that Mandel made numerous false and inaccurate representations to him in order to induce him to become a consultant for White Nile. Coleman asserts Mandel falsely represented that (1) White Nile was formed by an initial investment of $100,000 each by Mandel and Thrasher; (2) Eduardo had formally agreed to invest at least $1 million in development efforts and that he had a development team in place in Manila; (3) White Nile had a business plan; (4) White Nile had pro forma financial projections; (5) the local firm that White Nile was hiring to create system documents was being paid by Mandel in cash; and (5) Martin and Williams were working full-time for White Nile.

45. Mandel denies that he made any false statements to Thrasher, Coleman or White Nile. He contends, alternatively, that if he did make any false statements, Thrasher, Coleman and White Nile did not reasonably and justifiably rely upon them.

46. The Court finds and concludes that Mandel, in fact, made the alleged representations to Thrasher, Coleman and White Nile. The Court further finds

these representations were false and that Mandel knew they were false when he made them.

47. Mandel made the alleged false representations with the intent that Thrasher, Coleman and White Nile act and rely upon them. Thrasher reasonably relied on Mandel's representations by entering into business with him and agreeing that Mandel would hold an equity interest in White Nile equal to his own. Coleman reasonably relied on Mandel's representations by becoming a consultant for White Nile, executing a consulting agreement, agreeing to defer his compensation, and completing the initial scope of work called for by the consulting agreement. White Nile reasonably relied upon Mandel's representations by dropping the negotiations with MDS and providing Mandel with full access to the trade secrets and intellectual property that Thrasher and Coleman were developing.

48. Thrasher, Coleman and White Nile were injured by Mandel's false statements and misrepresentations. Thrasher lost control of his intellectual property and was forced to watch from the sidelines as Mandel formed a new, apparently profitable company that appeared to be marketing a search engine using Thrasher's ideas. White Nile, likewise, was unable to develop its search engine. In addition, Coleman still has not been paid in full for his work, and he has not received the equity interest in White Nile that he was promised in his consulting agreement.

49. Thrasher, Coleman and White Nile seek an award in an amount that would prevent Mandel's unjust enrichment as well as exemplary damages.

Thrasher, Coleman and White Nile have not specified an amount that would prevent Mandel's unjust enrichment. Rather, they seem to argue in their closing brief that their damages for fraud overlap the damages they seek for Mandel's misappropriation of intellectual property and trade secrets.

E. Breach of Contract

50. Thrasher claims that Mandel's actions breached the non-disclosure agreements Mandel signed with Thrasher. Thrasher asserts that Mandel violated the nondisclosure agreements by disclosing confidential intellectual property developed by Thrasher or developed from Thrasher's ideas to NeXplore and its agents or employees. Thrasher, on behalf of White Nile, also asserts a claim against Mandel for breach of his non-disclosure agreement with White Nile. In addition, Coleman and Thrasher assert that they are third-party beneficiaries of Mandel's nondisclosure agreement with White Nile.

51. Mandel denies that any breach of contract occurred. He also challenges the standing of Thrasher and Coleman as third party beneficiaries.

52. To establish a breach of contract, Thrasher and Coleman must establish following essential elements: (1) the existence of a valid contract; (2) performance or tendered performance by the plaintiff; (3) breach of the contract by the defendant; and (4) damages sustained as a result of the breach. *See B & W Supply, Inc. v. Beckman,* 305 S.W.3d 10, 16 (Tex. App. — Houston [1st Dist.] 2009, pet. denied).

53. Here, two valid non-disclosure agreements exist – one between Thrasher and Mandel, and one between White Nile and Mandel.

54. With respect to the standing of Thrasher and Coleman as beneficiaries of the agreement between Mandel and White Nile, a third-party beneficiary contract cannot be created by implication. *MCI Telecomms. Corp. v. Texas Utils. Elec. Co.,* 995 S.W.2d 647, 651 (Tex. 1999). A third-party beneficiary will not be recognized unless that intention is clearly written or evidenced in the contract. *Id.* Thus, "[t]he fact that a person is directly affected by the parties' conduct, or that he 'may have a substantial interest' in a contract's enforcement, does not make him a third party beneficiary." *Loyd v. ECO Res., Inc.,* 956 S.W.2d 110, 134 (Tex. App. — Houston [14th Dist.] 1997, no writ). The law presumes parties contract for themselves unless it "clearly appears" that they intended a third party to benefit from the contract. *MCI Telecomms.,* 995 S.W.2d at 651. "If there is any reasonable doubt as to intent to confer a direct benefit, the third-party beneficiary claim must fail." *MJR Corp. v. B & B Vending Co.,* 760 S.W.2d 4, 11 (Tex. App. — Dallas 1988, writ denied).

55. In this case, Thrasher and Coleman were not stated beneficiaries of Mandel's non-disclosure agreement with White Nile. Although Mandel's breach of that agreement clearly affected them, the Court does not find any clear intent to confer a direct benefit on Thrasher or Coleman by way of Mandel's non-disclosure agreement with White Nile. The Court, therefore, cannot construe Thrasher or Mandel to be third

party beneficiaries of Mandel's non-disclosure agreement with White Nile.

56. With respect to the direct claims of Thrasher and White Nile for Mandel's breach of his respective non-disclosure agreements with them, Thrasher and White Nile provided Mandel with full access to Thrasher's intellectual property pursuant to these agreements. Mandel disclosed intellectual property containing or developed from the ideas of Thrasher to NeXplore or its employees or agents. In doing so, Mandel breached his promises to Thrasher and White Nile. Mandel's conduct significantly reduced the value of White Nile, and Thrasher suffered actual damages as a result of this loss in value as well as the ensuing litigation over ownership and inventorship.

57. Thrasher and White Nile have not specified an amount of actual damages or an amount that would prevent Mandel's unjust enrichment. Rather, they argue in their closing brief that their damages for breach of contract overlap the damages they seek for Mandel's misappropriation of intellectual property and trade secrets.

F. Conspiracy

58. Thrasher asserts that Mandel conspired with Williams, Skinner and Skinner's parents to misappropriate and use Thrasher's intellectual property at NeXplore, in order to deprive Thrasher of the opportunity to profit from his own inventions, and to destroy the value of Thrasher's interest in White Nile. Coleman likewise asserts that Mandel conspired with Williams, Skinner and Skinner's parents to misappropriate trade secrets and confidential property he

owns. White Nile asserts that Mandel conspired with Williams, Skinner and Skinner's parents to wrongfully oust Thrasher, to prevent White Nile's development of its intellectual property, to facilitate NeXplore's exploitation of White Nile's intellectual property, and to use White Nile as a litigation tool.

59. A defendant's liability for conspiracy depends on "participation in some underlying tort for which the plaintiff seeks to hold at least one of the named defendants liable." *See Tilton v. Marshall,* 925 S.W.2d 672, 681 (Tex. 1996).

60. A civil conspiracy is a combination by two or more people to accomplish an unlawful purpose or to accomplish a lawful purpose by unlawful means. *See Goldstein v. Mortenson,* 113 S.W.3d 769, 778 (Tex. App.-Austin 2003, no pet.). A conspiracy requires a preconceived plan and unity of design and purpose. *Id.* "The required elements of a civil conspiracy are (1) two or more persons; (2) an object to be accomplished; (3) a meeting of the minds on the object or course of action; (4) one or more unlawful, overt acts; and (5) damages as a proximate result." *Tri v. J.T.T.,* 162 S.W.3d 552, 556 (Tex. 2005); *Boales v. Brighton Builders, Inc.,* 29 S.W.3d 159, 164 (Tex. App. — Houston [14th Dist.] 2000, pet. denied). In addition, civil conspiracy requires specific intent to agree to accomplish an unlawful purpose or to accomplish a lawful purpose by unlawful means. *A.H. Belo Corp. v. Corcoran,* 52 S.W.3d 375, 384 (Tex. App. — Houston [1st Dist.] 2001, pet denied) (citing *Juhl v. Airington,* 936 S.W.2d 640, 644 (Tex. 1996)).

61. For specific intent to exist in a civil conspiracy claim, the parties must be aware of the harm or wrongful conduct at the beginning of the agreement among them and intend to cause that harm through illegal means. *San Antonio Credit Union v. O' Connor,* 115 S.W.3d 82, 91 (Tex. App. — San Antonio 2003, pet. denied).

62. Proof of a civil conspiracy may be, and usually must be, made by circumstantial evidence. *Schlumberger Well Surveying Corp. v. Nortex Oil & Gas Corp.,* 435 S.W.2d 854, 858 (Tex. 1969).

63. Here, Thrasher presented evidence of a combination of two or more persons, namely, Mandel, Williams and the Laynes. The evidence produced by Thrasher, and the reasonable inferences that can be drawn from the evidence, establish a conspiracy by Mandel, Williams and the Laynes to misappropriate White Nile's intellectual property and trade secrets by starting up NeXplore, transferring White Nile's cash and investment opportunities to NeXplore, taking control of the intellectual property and trade secrets developed by Thrasher, and using White Nile's intellectual property as at least a starting point to design internet search engine technology for NeXplore. The evidence produced by Coleman likewise establishes that Mandel also conspired with Williams and the Laynes to misappropriate Coleman's trade secrets and intellectual property for NeXplore's benefit.

64. While it is true there was no direct evidence Mandel, Williams, and the Laynes got together and agreed to take advantage of Thrasher, Coleman and White Nile, they were fully aware of exactly what they

were doing. They understood that their conduct was wrongful and in breach of their legal and contractual obligations to White Nile and Thrasher. Indeed, they expressly released themselves from their obligations under the non-disclosure, non-competition and consulting agreements they had signed with White Nile, Thrasher and Coleman.

65. The actions of Mandel and his co-conspirators were in breach of their duties to White Nile. Their actions were intentional and not simply negligent. Moreover, Mandel's involvement was not merely collateral. *Laxson v. Giddens,* 48 S.W.3d 408, 410 (Tex. App. — Waco 2001, pet. denied). Mandel was the ringleader, and his co-conspirators were enthusiastic participants in his circus.

66. Coleman and Thrasher do not set out a precise amount of damages they seek for their conspiracy claims. Rather, they argue in their closing brief that their damages for conspiracy overlap the damages they seek for Mandel's misappropriation of intellectual property and trade secrets.

G. Shareholder Oppression

67. Thrasher also complains that White Nile has mistreated him as a shareholder and that Mandel, who orchestrated White Nile's oppressive conduct, may be held liable him.[8] Thrasher specifically asserts

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[8] In the parties' joint pre-trial order, Thrasher generally asserted a shareholder oppression claim against Mandel. He did not include a detailed discus-

that the same conduct that constitutes a breach of fiduciary duty, as discussed above, also constitutes shareholder oppression.

68. There is no set standard for determining whether shareholder oppression has occurred. *Davis v. Sheerin,* 754 S.W.2d 375, 382 (Tex. App. — Houston [1st Dist.] 1988, writ denied). Rather, a court must examine the facts as a whole and determine whether the corporation's conduct has deprived a minority shareholder of the shareholder's reasonable expectations as an equity holder of the corporation. *Id.* at 382-83. The corporation's conduct must not be protected by the business judgment rule. *Id.* However, "[c]ourts take an especially broad view of the application of oppressive conduct to a closely-held corporation, where oppression may more easily be found." *Davis,* 754 S.W.2d at 381.

69. In *Davis,* for example, the majority shareholders conspired to deprive the minority shareholder of his stock and breached their fiduciary duty by wrongfully withholding dividends and wasting corporate funds on personal attorney's fees. 754 S.W.2d at 382.

70. Here, the Court finds and concludes that Mandel's breaches of fiduciary duty and usurpation of White Nile's business opportunities also constitute acts of shareholder oppression. In addition, his conduct with respect to the formation and operation of

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sion of this claim in the order. Thrasher's closing arguments, in contrast, discuss his shareholder oppression claim at length.

NeXplore, the failure to prosecute White Nile's intellectual property, the use of litigation in an attempt to prevent Thrasher from reclaiming his intellectual property, and NeXplore's development of similar intellectual property, all constitute oppressive conduct. Mandel's conduct transformed White Nile into little more than an empty shell.

71. As damages, Thrasher asserts that he is entitled to the benefits or profits enjoyed by Mandel as a result of his conduct. Thrasher does not set out a precise amount benefits or profits, but appears to argue that, as with his other claims, his damages for shareholder oppression overlap the damages he seeks for Mandel's misappropriation of intellectual property and trade secrets.

H. Misappropriation or Theft of Trade Secrets

72. The Court now turns to the claims of Thrasher, Coleman and White Nile for misappropriation or theft of trade secrets by Mandel.

73. Under the Texas Theft Liability Act, "theft" means "unlawfully appropriating property or unlawfully obtaining services as described by Section ... 31.05 ... [of the] Penal Code." TEX. CIV. PRAC. & REM.CODE § 134.002(2). Section 31.05 of the Penal Code is titled "Theft of Trade Secrets," and states "[a] person commits an offense if, without the owner's effective consent, he knowingly: (1) steals a trade secret; (2) makes a copy of an article representing a trade secret; or (3) communicates or transmits a trade secret." TEX. PENAL CODE § 31.05(b). The Texas Penal Code defines "trade secret" as "the whole or any part

of any scientific or technical information, design, process, procedure, formula, or improvement that has value and that the owner has taken measures to prevent from becoming available to persons other than those selected by the owner to have access for limited purposes." TEX. PENAL CODE § 31.05(a)(4); *See* TEX. CIV. PRAC. & REM.CODE § 134.002(2) (incorporating definitions from the Penal Code).

74. Misappropriation of trade secrets is also a common-law tort cause of action. *Trilogy Software, Inc. v. Callidus Software, Inc.,* 143 S.W.3d 452, 463 (Tex. App. — Austin 2004, pet. denied). Under Texas law, a plaintiff can recover for misappropriation of trade secrets by establishing (1) existence of a trade secret, (2) breach of a confidential relationship or improper discovery of a trade secret, (3) use of the trade secret without the plaintiff's authorization, and (4) resulting damages. *See Tex. Integrated Conveyor Sys., Inc. v. Innovative Conveyor Concepts, Inc.,* 300 S.W.3d 348, 366-67 (Tex. App. — Dallas 2009, pet. denied). The appropriate measure of damages in such cases is a "reasonable royalty." *Univ. Computing Co. v. Lykes-Youngstown Corp.,* 504 F.2d 518, 536 (5th Cir. 1974). "This does not mean a simple percentage of actual profits; instead, the trier of fact ... must determine 'the actual value of what has been appropriated.'" *Metallurgical Indus. Inc. v. Fourtek, Inc.,* 790 F.2d 1195, 1208 (5th Cir. 1986) (quoting *Vitro Corp. v. Hall Chem. Co.,* 292 F.2d 678, 683 (6th Cir. 1961) and citing *Univ. Computing Co.,* 504 F.2d at 537).

1. Existence of a Trade Secret

75. In this case, Mandel contends that Thrasher, Coleman and White Nile never possessed any trade secrets. Although patents have issued for one of Thrasher's ideas as well as for one of the ideas Thrasher and Coleman developed together, Mandel asserts that none of their ideas qualify as trade secrets because they were based on everyday knowledge or were merely accumulations based on information in the public domain.

76. A trade secret may consist of any formula, pattern, device, or compilation of information used in one's business that provides an opportunity to obtain an advantage over competitors who do not know or use it. *Computer Assocs. Int' l, Inc. v. Altai, Inc.,* 918 S.W.2d 453, 455 (Tex. 1996). Items such as customer lists, pricing information, client information, contacts, market strategies, blueprints, and drawings have all been shown to be trade secrets. *Am. Precision Vibrator Co. v. Nat'l Air Vibrator Co.,* 764 S.W.2d 274, 276-79 (Tex. App. — Houston [1st Dist.] 1988, no writ); *Tex. Integrated Conveyor Sys., Inc.,* 300 S.W.3d at 367; *Rugen v. Interactive Bus. Sys., Inc.,* 864 S.W.2d 548, 552 (Tex. App. – Dallas 1993, no writ). Use of a trade secret means commercial use, by which a person seeks to profit from the use of the secret. *Global Water Group, Inc. v. Atchley,* 244 S.W.3d 924, 930 (Tex. App. — Houston [1st Dist.] 2008, pet. denied); *Atl. Richfield Co. v. Misty Prods., Inc.,* 820 S.W.2d 414, 422 (Tex. App. — Houston [14th Dist.] 1991, writ denied).

77. In his post-trial brief, Mandel argues that White Nile's alleged trade secrets were, in fact, public knowledge. His argument is based on the undisputed fact that Thrasher and Coleman used materials from the public domain to create White Nile's search engine. Mandel has not provided this Court with authority to support his argument that the use of materials within the public domain means that White Nile's technology was not a trade secret.

78. Dr. Nicholas Lawrence, an expert in search engine technologies, testified that the intellectual property developed by Thrasher and Coleman combined several common elements in a novel and inventive way. To use a familiar analogy — sugar, milk and eggs are not unique, but a recipe with these ingredients can create a unique, award-winning cake.

79. Mandel also argues that Thrasher failed to establish that he kept White Nile's intellectual property secret. "It is axiomatic that the core element of a trade secret must be that it remain a secret." *Schalk v. State,* 823 S.W.2d 633, 640 (Tex. Crim. App. 1991). However, "absolute secrecy is not required"— rather, a substantial element of secrecy must exist. *Id.* (citing *Q–Co Indus., Inc. v. Hoffman,* 625 F.Supp. 608 (S.D.N.Y. 1985)). A substantial element of secrecy exists when "'except by use of improper means, there would be difficulty in acquiring the information.'" *Hoffman,* 625 F.Supp. at 617 (quoting *A.H. Emery Co. v. Marcan Prods. Corp.,* 389 F.2d 11, 16 (2nd Cir. 1968))

80. In this case, Mandel seeks to support his argument by pointing out that the trial record does not

contain copies of nondisclosure agreements for every person who may have heard about some aspect of the technology White Nile was seeking to develop. Mandel asserts that Thrasher was careful at the beginning to obtain such agreements from everyone, but then he got sloppy. The Court, however, finds that the preponderance of the evidence establishes that Thrasher made every reasonable effort to maintain confidentiality and secrecy. The Court further finds that the preponderance of the evidence establishes that it would have been difficult to acquire information about White Nile's intellectual property except by improper acts.

2. Breach of a Confidential Relationship and Use of Trade Secret Without Authorization

81. Improper means of acquiring trade secrets include theft, fraud, inducement of or knowing participation in a breach of confidence, and other means either wrongful in themselves or under the circumstances. *Astoria Indus. of Iowa, Inc. v. SNF, Inc.,* 223 S.W.3d 616, 636 (Tex. App. — Fort Worth 2007, pet. denied).

82. As this Court has previously discussed, Mandel acquired White Nile's trade secrets through his position as an officer of White Nile. He betrayed his position of trust, breached his contracts with Thrasher and White Nile, and breached his fiduciary duty to White Nile, by knowingly communicating White Nile's trade secrets to NeXplore. Furthermore, he stifled the objections that Thrasher and Martin raised on behalf of White Nile by orchestrating Thrasher's

removal as an officer of White Nile, among other things.

83. With respect to the required element of actual use or disclosure of the trade secret, use of the trade secret means commercial use by which the offending party seeks to profit from the use of the secret. *See Metallurgical Indus. Inc. v. Fourtek, Inc.,* 790 F.2d 1195, 1205 (5th Cir. 1986); *Atlantic Richfield Co. v. Misty Products, Inc.,* 820 S.W.2d 414, 422 (Tex. App. — Hous. [14th Dist.] 1991, writ denied). Evidence of a similar product may give rise to an inference of actual use under certain circumstances. *See Leggett & Platt, Inc. v. Hickory Springs Mfg. Co.,* 285 F.3d 1353, 1361 (Fed. Cir. 2002).

84. Here, NeXplore, like White Nile, developed search engine technology. They used many of the same employees and consultants and had a similar business plan. Savard, for example, had the same role in development at NeXplore as he enjoyed at White Nile. Mandel even joked with Savard that the only thing that was changing was the name of the company.

85. Mandel ensured that NeXplore's employees had access to White Nile's intellectual property, including its patent applications and the SAQQARA documents. Mandel thereby sought to profit from White Nile's trade secrets while, at the same time, denying any profit to White Nile's shareholders. In addition, on the issue of similarity, Dr. Kiumarse Zamanian testified, credibly, that the concepts behind the White Nile and NeXplore search engines were very similar.

3. Entitlement to Damages

86. In their closing statement, Thrasher and Coleman advance a "lost asset" theory of damages. In *Schonfeld v. Hilliard,* 218 F.3d 164 (2d Cir. 2000), the Second Circuit determined that the plaintiff could recover, as consequential damages, the value of the asset (in that case, broadcast contracts) it lost because of the defendant's breach of contract. In *Schonfeld,* the court determined the market value of the lost asset by considering what a hypothetical buyer would pay for the chance to earn future profits. The best evidence of this value is an actual sale of the asset or, as in *Schonfeld,* evidence of a recent arms-length, negotiated offer to purchase the asset.

87. Although White Nile never achieved profitability, Thrasher and Coleman contend that White Nile had a fair market value of $56 million based on an analysis by their expert, Brad Taylor. Taylor estimated the market value of numerous, successful start-up companies in the same general industry as White Nile for which he could find valuations in the December 2005 and January 2006 timeframe. The Court, however, is not persuaded by Taylor's analysis or his expert report. Taylor's calculations of market value fail to adequately account for the extremely high failure rate of companies like White Nile.

88. Dr. Gilbert F. Amelio also testified for Thrasher and Coleman on the issue of valuation. Prior to the emergence of hostilities between Thrasher and Mandel, Martin told Amelio about White Nile as part of his efforts to generate interest

in the company. At trial, Amelio testified that he saw potential in White Nile, and Thrasher and Coleman urge this Court to place great weight in his testimony that White Nile eventually might have been worth as much as $56 million.

89. Amelio did *not* testify that White Nile was actually worth $56 million. Moreover, his testimony in support of Taylor's valuation of White Nile was offset by his practical experience with companies like White Nile. Amelio recognized that White Nile would have required a significant financial investment to develop. He also recognized that at least 80% of companies like White Nile fail to become profitable and that White Nile's potential would not be bankable for years – if ever. Amelio testified that he did not perform a formal due diligence review on White Nile, and he was not sure whether he would have invested in the company.

90. The evidence of NeXplore's fair market value is, at best, fuzzy. Taylor testified about obtaining value information from NeXplore's own website – information that NeXplore subsequently removed. In his bankruptcy schedules, Mandel listed the value of his 33 million restricted shares in NeXplore as "unknown."

91. The fact that Mandel has received the total sum of $2,726,926 in salary from NeXplore and that NeXplore has paid or incurred $725,789 in attorneys' fees and costs on behalf of Mandel is not necessarily an indication of value. Indeed, such actions conceivably could have eroded NeXplore's value to investors.

92. In the alternative, Thrasher and Coleman argue that this Court should use the $300,000 investment made by the Laynes in exchange for 75,000 shares of White Nile as evidence that White Nile had a market value of $219 million in December 2005. However, the Laynes received false information about Eduardo's investment in White Nile at the investor meeting in Arkansas, and their subsequent decision that 75,000 shares of White Nile was worth $300,000 is not credible evidence of the fair market value of White Nile. The value of White Nile had not been tested by the market when the Laynes agreed to invest in the company.

93. The Court, for all of the foregoing reasons, concludes that a "lost asset" theory is not helpful for determining damages based on the facts of this case.

94. Thrasher and Coleman alternatively argue for damages based on profits or benefits to Mandel, NeXplore, and Mandel's co-conspirators. As stated by the Fifth Circuit,

> If the defendant enjoyed actual profits, a type of restitutionary remedy can be afforded the plaintiff — either recovering the full total of defendant's profits or some apportioned amount designed to correspond to the actual contribution the plaintiff's trade secret made to the defendant's commercial success. Because the primary concern in most cases is to measure the value to the defendant of what he actually obtained from the plaintiff, the proper measure

> is to calculate what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use the defendant intended at the time the misappropriation took place.

Univ. Computing Co., 504 F.2d at 538-39.

95. In calculating what a fair licensing price would have been had the parties agreed, a court should consider such factors as the resulting and foreseeable changes in the parties' competitive posture; prices past purchasers or licensees may have paid; the total value of the secret to the plaintiff, including the plaintiff's development costs and the importance of the secret to the plaintiff's business; the nature and extent of the use the defendant intended for the secret; and whatever other unique factors in the particular case might have been affected by the parties' agreement, such as the ready availability of alternative processes. *Metallurgical Indus. Inc.,* 790 F.2d at 1208 (citing *Univ. Computing Co.,* 504 F.2d at 540). "Estimation of damages, however, should not be based on sheer speculation." *Id.* If too few facts exist to permit the trier of fact to calculate proper damages, then a reasonable remedy in law is unavailable. *Id.*

96. Here, NeXplore has never made a profit. Indeed, the market value of NeXplore appears to be on a sharply downward trajectory. NeXplore's shares were trading between $4.25 a share and $1.25 a share on the "Pink Sheets" exchange in the second quarter of 2007. By August 2010, a thin volume of less than 5,000 of NeXplore's shares per day were trading at

only $0.30 per share. Setting aside the restrictions of Mandel's shares, and ignoring the lack of demand for a large volume of those shares, Mandel would receive only $9.9 million for all of his 33 million shares in NeXplore at a price of $0.30 per share.

97. The Court finds and concludes that Thrasher and Coleman were damaged by the conduct of Mandel, and that Thrasher and Coleman should prevail on their claims for misappropriation or theft of their trade secrets.

98. In cases where damages should be awarded, but it is difficult to determine the precise sum, Texas law generally leaves the determination of the amount to be awarded to the discretion of the trier of facts. *See* 28 TEX.JUR. Damages § 14, *Effect of Uncertainty as to Amount of Damages* (collecting Texas authority). The Court, having considered all of the testimony and documentary evidence at trial, finds and concludes that the preponderance of the evidence establishes that Thrasher should prevail on his claims against Mandel for breach of contract, fraud, conspiracy, and shareholder oppression. Thrasher is hereby awarded compensatory damages in the total amount of $1,000,000 for these claims. Thrasher's compensatory damages for misappropriation or theft of trade secrets are coextensive with, and included in, this sum.

99. The Court further finds that the preponderance of the evidence establishes that Coleman should prevail on his claims for fraud, breach of contract, and conspiracy. Coleman is hereby awarded compensatory damages in the total amount of $400,000 for these claims. Thrasher's compensatory damages for

misappropriation or theft of trade secrets are coextensive with, and included in, this sum.

100. Finally, the Court finds that Thrasher, on behalf of White Nile, should prevail on his claims for breach of contract, breach of fiduciary duty, and fraud. White Nile is hereby awarded compensatory damages in the amount of $300,000.

I. Attorneys' Fees and Costs[9]

101. Thrasher and Coleman seek to recover their attorneys' fees pursuant to the Texas Civil Practice & Remedies Code §§ 38.001 and 134.005.[10] Section

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[9] In his closing argument, Thrasher combines the request for attorneys' fees with a request that the Court allocate all of the fees and costs incurred by White Nile's receiver to Mandel. Thrasher's closing brief does not include any substantive discussion or any authority in support of this request. Moreover, Orenstein's entitlement to recover fees from Mandel is the subject of a separate, pending dispute.

[10] In their closing brief, Thrasher and Coleman allege that they are entitled to their attorneys' fees based on bad faith litigation by Mandel. This claim was not in the parties' joint pre-trial order, nor was it litigated at trial. Thrasher and Colman also allege in their brief that they are entitled to recover their attorneys' fees because Mandel's wrongful conduct involved them in this litigation. The claimants cite *Turner v. Turner,* 385 S.W.2d 230, 234 (Tex. 1964) in support of their argument, wherein the Texas Supreme Court stated in passing that a defendant may

38.001 provides for the recovery of attorney's fees by a prevailing party on a breach of contract claim. Section 134.005(b) provides for the recovery of attorneys' fees by a party who prevails in a suit under the Texas Theft Liability Act.

102. In this case, as previously discussed, Thrasher and Coleman have established a claim for breach of contract by Mandel as well as a claim for theft of trade secrets under Texas law.

103. Thrasher and Coleman concede that they are not entitled to their attorneys' fees for fraud or misappropriation of trade secrets. Under Texas law, however, where a case involves claims for which attorneys' fees are recoverable and claims for which they are not recoverable (as is the case here) when legal services that advance both recoverable and unrecoverable claims are so intertwined the attorneys' fees need not be segregated. *Tony Gullo Motors I, L.P., v. Chapa,* 212 S.W.3d 299 (Tex. 2007).

104. Thrasher and Coleman assert that they have incurred the total sum of $2,267,793.70 in attorneys' fees and $255,898.48 in costs. They contend that 90% of this amount relates to their theft of trade secrets claim, which is duplicative (at least in part) of their claim for attorneys' fees and costs based on breach of contract. Thus, they are seeking to recover 90% of

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be liable for a plaintiff's attorneys fees incurred in a prior action if the defendant's tortious conduct embroiled the plaintiff in the prior action. The Texas Supreme Court's analysis in *Turner* does not support an award of fees in the present case.

their attorneys' fees and out-of-pocket expenses totaling $2,141,014.33 and $230,390.53, respectively.

105. Under Texas law, an award of fees is mandatory if a party has recovered on a breach of contract claim or theft of trade secret claim. *See* TEX. CIV. PRAC. REM. CODE ANN. § 134.005(b) ("Each person who prevails in a suit under this chapter shall be awarded court costs and reasonable and necessary attorney's fees."); *Mathis v. Exxon Corp.,* 302 F.3d 448, 462 (5th Cir. 2002) (discussing breach of contract). The amount of reasonable fees, however, is discretionary. *Mathis,* 302 F.3d at 462.

106. The Texas Supreme Court has outlined eight relevant factors for courts to consider when determining the reasonableness of an attorneys' fee award:

(1) the time and labor required, the novelty and difficulty of the questions involved, and the skill required to perform the legal service properly;

(2) the likelihood ... that the acceptance of the particular employment will preclude other employment by the lawyer;

(3) the fee customarily charged in the locality for similar legal services;

(4) the amount involved and the results obtained;

(5) the time limitations imposed by the client or by the circumstances;

(6) the nature and length of the professional relationship with the client;

(7) the experience, reputation, and ability of the lawyer or lawyers performing the services; and

(8) whether the fee is fixed or contingent on results obtained or uncertainty of collection before the legal services have been rendered.

Arthur Andersen & Co. v. Perry Equip. Corp., 945 S.W.2d 812, 818 (Tex. 1997).

107. The Court has reviewed the documents submitted by counsel relating to their fees and costs. The Court, having considered all of the relevant factors, concludes that Thrasher and Coleman are entitled to an award of their attorneys' fees in the total amount of $1,500,000 ($795,000 for the Law Offices of Mitchell Madden and $705,000 for Elvin E. Smith) plus costs in the total amount of $255,989.48 ($232,308 for the Law Offices of Mitchell Madden and $23,681.48 for Elvin E. Smith).

J. Exemplary Damages

108. Last, Thrasher and Coleman contend they are entitled to exemplary damages. Exemplary damages are levied against a defendant to punish the defendant for outrageous, malicious, or otherwise morally culpable conduct. *Transp. Ins. Co. v. Moriel,* 879 S.W.2d 10, 16 (Tex. 1994). A mere showing that the act is wrong or unlawful is not sufficient to support an award of exemplary damages. *Cont'l Coffee Prods. Co. v. Cazarez,* 937 S.W.2d 444, 454 (Tex. 1996). Rather, exemplary damages may only be awarded where there is proof by clear and convincing evidence of fraud, malice, or gross negligence. TEX. CIV. PRAC. &

REM. CODE ANN. § 41.003(a). At trial, Thrasher and Coleman argued that Mandel acted with malice.

109. Malice involves acting with ill will, spite, evil motive, or purpose to injure or harm. *Southwestern Bell Tel. Co. v. Garza,* 164 S.W.3d 607, 628 (Tex. 2004); *Cont'l Coffee Prods.,* 937 S.W.2d at 452. Thus, to establish that Mandel acted with malice, Thrasher and Coleman had to prove a specific intent by Mandel to cause substantial injury or harm to them. *See* TEX. CIV. PRAC. & REM. CODE ANN. § 41.001(7). Moreover, Thrasher and Coleman had to show that Mandel's conduct involved an objective extreme risk of harm and that Mandel had a subjective "actual awareness" of an extreme risk created by its conduct. *See Transp. Ins. Co.,* 879 S.W.2d at 21; *Kinder Morgan N. Tex. Pipeline, L.P. v. Justiss,* 202 S.W.3d 427, 447 (Tex. App. — Texarkana 2006, no pet.). That harm must be extraordinary such as death, grievous physical injury, or financial ruin. *Kinder Morgan,* 202 S.W.3d at 447.

110. Here, Mandel had ill feelings toward Thrasher and expressed those feelings to others, even going so far as to imply to some of White Nile's consultants and employees that Thrasher was crazy and out of control.

111. Mandel specifically intended to take control of White Nile's intellectual property and use it to start up his own business. Mandel's actions were clearly improper, but it is not clear that he fully appreciated his responsibility to White Nile, White Nile's other shareholders, and White Nile's creditors in the context of winding up White Nile's affairs. He appears to have believed that White Nile's property became his

property when White Nile ceased to function. The Court concludes, based on the preponderance of the evidence, Mandel did not act with the requisite malice.

112. As to Coleman, the evidence also does not establish any specific malice. Mandel simply did not want to pay Coleman for his work for White Nile or for any use of Coleman's intellectual property.

113. The Court, therefore, concludes that the claimants are not entitled to an award of exemplary damages.

114. To the extent any conclusion of law is determined to be a finding of fact, the Court hereby adopts it as such.

Signed on 9/30/2011

/s/ Brenda T. Rhoades MD

HONORABLE BRENDA T. RHOADES,

CHIEF UNITED STATES BANKRUPTCY JUDGE

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 17-40059

[Date Filed: April 2, 2018]

In the matter of: EDWARD MANDEL

Debtor

EDWARD MANDEL,

Appellant

v.

STEVEN THRASHER; JASON COLEMAN,

Appellees

In the matter of: EDWARD MANDEL

Debtor

STEVEN THRASHER; LAW OFFICES OF MITCHELL MADDEN, MADDENSEWELL, L.L.P.; JASON SCOTT COLEMAN,

Appellees

v.

EDWARD MANDEL,

Appellant

Appeal from the United States District Court
for the Eastern District of Texas

ON PETITION FOR REHEARING

Before KING, JONES, and ELROD, Circuit Judges.

PER CURIAM:

IT IS ORDERED that the petition for rehearing is denied.

ENTERED FOR THE COURT:

/s/ Edith H. Jones

UNITED STATES CIRCUIT JUDGE