

**United States District Court**  
EASTERN DISTRICT OF TEXAS  
SHERMAN DIVISION

KAZEE, INC.

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v.

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DR. DAVID L. CALLENDER, in his  
official capacity as President of the  
University of Texas Medical Branch,  
and TODD LEACH, in his official  
capacity as Chief Information Officer of  
the University of Texas Medical Branch

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CIVIL ACTION NO. 4:19-CV-31-SDJ

**MEMORANDUM OPINION & ORDER ADOPTING THE FACTUAL FINDINGS AND  
LEGAL CONCLUSIONS OF MAGISTRATE’S REPORT AND RECOMMENDATION**

Before the Court is Defendants Dr. David L. Callender and Todd Leach’s Motion to Dismiss. (Dkt. #10). The Magistrate Judge entered a report and recommendation that the motion be denied. (Dkt. #37). The Defendants filed objections, (Dkt. #38), to which KaZee responded in support, (Dkt. #39). The Court, having conducted a *de novo* review of the motion and the record, adopts the factual findings and legal conclusions of the report under the reasoning set forth herein.

**I. FACTUAL & PROCEDURAL BACKGROUND**

KaZee, Inc., provides information-technology products and services to the healthcare industry, including its “PEARL” system, an electronic medical records software program. KaZee agreed to license PEARL to the University of Texas Medical Branch at Galveston (“UTMB”) for use at member sites within its Correctional Managed Health Care Program (“CMHCP”). The parties entered into a “Master License” agreement (the “Agreement”) that set out, among other

things, the type of license, scope of use allowed under the license, and methods of terminating the license.<sup>1</sup>

After implementing PEARL at the agreed-upon CMHCP sites, KaZee became aware of alleged use of PEARL at other sites not within the CMHCP. In response to KaZee's inquiry about such use, UTMB acknowledged that its legal department initially agreed that the "current license can only be used for [the] UTMB/TDCJ/TT project [at the CMHCP sites] unless there is another agreement in place" and provided a list of sites that had used PEARL. KaZee asserted that UTMB's use of PEARL at certain sites was unauthorized, that such use constituted a material breach of the Agreement, and that the breach could be cured by paying \$20 million in licensing fees.

KaZee negotiated with UTMB to resolve the dispute while allowing UTMB to continue using PEARL for several years. Unable to come to an agreement, KaZee filed suit against UTMB for breach of contract under state law and copyright infringement under 17 U.S.C. § 501.<sup>2</sup> In a motion to dismiss, UTMB asserted sovereign immunity against both claims and failure to exhaust administrative remedies in the State Office of Administrative Hearings ("SOAH") as to the breach of contract claim. Shortly thereafter, the parties entered into a Tolling Agreement dismissing the lawsuit without prejudice and tolling KaZee's claims until 30 days after the completion of administrative proceedings in SOAH.

Without filing a notice of claim in SOAH, KaZee resumed its efforts to negotiate payment for the allegedly unauthorized use of PEARL. When negotiations between KaZee and UTMB

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<sup>1</sup> UTMB entered into the Agreement with Medical Information Management Systems, Inc. ("MIMS"). UTMB later entered into a Maintenance Agreement and a Source Code Agreement with Business Computer Applications, Inc. ("BCA"). KaZee is the successor-in-interest of both MIMS and BCA.

<sup>2</sup> *KaZee, Inc. v. University of Texas Medical Branch at Galveston*, Civil Action No. 4:18-CV-53 (E.D. Tex. Jan. 19, 2018).

failed again, KaZee sent UTMB a letter asserting that UTMB's unauthorized use of PEARL constituted a material breach of the Agreement. The letter further stated that, unless UTMB paid KaZee \$20 million within 60 days for licensing fees allegedly owed to KaZee as a result of UTMB's unauthorized use of PEARL, the Agreement would be terminated. UTMB responded by contesting KaZee's assertion of a breach by unauthorized use, rejecting KaZee's related contention that it was owed licensing fees, and arguing that any claims KaZee might assert arising under the Agreement must be filed with SOAH rather than in federal court pursuant to the Agreement and the Tolling Agreement.

After 60 days passed without payment of the demanded licensing fees, KaZee filed this suit against Dr. David L. Callender, in his official capacity as President of UTMB, and Todd Leach, in his official capacity as Chief Information Officer of UTMB. KaZee asserts a copyright-infringement claim under 17 U.S.C. § 501, and a misappropriation-of-trade-secrets claim in violation of 18 U.S.C. § 1836 (the Defend Trade Secrets Act ("DTSA")). KaZee seeks preliminary and permanent injunctive relief against UTMB's ongoing use of PEARL. Defendants answered with a motion to dismiss, invoking sovereign immunity and challenging both this Court's subject-matter jurisdiction and the claims' sufficiency. The Magistrate Judge issued a report and recommendation counseling denial of the Defendants' motion, to which Defendants objected and KaZee replied in support.

## **II. DEFENDANTS' RULE 12(b)(1) MOTION**

KaZee asserts that UTMB's ongoing use of PEARL constitutes copyright infringement and misappropriation of trade secrets and warrants preliminary and permanent injunctive relief. Defendants contest the claims and the relief sought, in part, through a Rule 12(b)(1) motion to dismiss, in which Defendants present three arguments. First, Defendants urge the Court to dismiss

KaZee's claims for lack of subject-matter jurisdiction because the facts alleged constitute breach of contract under state law rather than federal copyright infringement or federal misappropriation of trade secrets. Second, Defendants maintain that KaZee's claims should be dismissed under the forum non conveniens doctrine because the claims arise under the Agreement and thus must be brought before SOAH pursuant to the dispute-resolution provision therein. And, third, irrespective of how they are characterized, Defendants assert that KaZee's claims are barred because Defendants are entitled to sovereign immunity.

Defendants' Rule 12(b)(1) arguments fail. KaZee asserts federal claims over which this Court has subject-matter jurisdiction. Thus, there is no basis to dismiss the claims to allow filing in SOAH. And the claims may proceed against the Defendants under the *Ex parte Young* exception to sovereign immunity. Defendants' Rule 12(b)(1) motion is DENIED.

#### **A. Rule 12(b)(1) Legal Standards**

Article III of the Constitution requires a federal court to establish its subject-matter jurisdiction before exercising the judicial power of the United States. U.S. CONST. art. III ("The judicial Power shall extend to all Cases . . . [and] to Controversies."); *see also, e.g., Ruhrgas AG v. Marathon Oil Co.*, 526 U.S. 574, 583, 119 S.Ct. 1563, 143 L.Ed. 2d 760 (1999). This limit on a court's power is so essential to maintaining constitutional and statutory boundaries that it "must be policed by the courts on their own initiative even at the highest level." *Ruhrgas*, 526 U.S. at 583.

Federal Rule of Civil Procedure 12(b)(1) provides a procedural vehicle to challenge a court's subject-matter jurisdiction over a pending suit. A court should consider a jurisdictional attack under Rule 12(b)(1) before any attack on the merits to avoid premature dismissal with prejudice. *Ramming v. United States*, 281 F.3d 158, 161 (5th Cir. 2001) (per curiam). When doing

so, a court may consider the complaint, undisputed facts in the record, and disputed facts resolved by the court. *Id.* The moving party carries the burden of proving that the plaintiff “cannot prove any set of facts in support of his claim that would entitle plaintiff to relief.” *Id.*

## **B. Subject-Matter Jurisdiction**

KaZee asserts that the Court has subject-matter jurisdiction over the claims at issue because its copyright-infringement claim under 17 U.S.C. § 501, and its misappropriation-of-trade-secrets claim under 18 U.S.C. § 1836, both invoke federal-question jurisdiction.<sup>3</sup> Defendants argue that KaZee’s claims arise under the Agreement, sound in state law, and cannot support federal-question jurisdiction.

### **1. Copyright infringement**

A federal district court has subject-matter jurisdiction over actions “arising under the Constitution, laws, or treaties of the United States.” 28 U.S.C. § 1331. Relevant here, a district court has exclusive jurisdiction over actions arising under the Copyright Act. *Id.* § 1338(a); *Goodman v. Lee*, 815 F.2d 1030, 1031 (5th Cir. 1987). An action arises under the Copyright Act “if and only if”:

- (1) the complaint seeks a remedy expressly granted by the Act;
- (2) the complaint asserts a claim requiring construction of the Act; or
- (3) the complaint presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim.

*Goodman*, 815 F.2d at 1031 (quoting *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 824 (2d Cir. 1964) [hereinafter “*T.B. Harms test*”]).

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<sup>3</sup> KaZee does not rely upon diversity jurisdiction, nor could it. Defendants are citizens of Texas, and KaZee has its primary place of business in Texas.

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