

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEBRASKA

eScholar, LLC,	§	Case No. 8:20-cv-135 (CRG) (JMZ)
	§	
Plaintiff,	§	
v.	§	
	§	
NEBRASKA DEPARTMENT OF	§	
EDUCATION, DEAN FOLKERS,	§	
in his individual capacity, and MATT	§	
HASTINGS, in his individual capacity,	§	
	§	
Defendants.	§	

**eScholar, LLC's RESPONSE TO THE ORDER THAT IT SHOW CAUSE
WHY FEDERAL SUBJECT MATTER JURISDICTION EXISTS**

ERICKSON I SEDERSTROM, P.C.
RICHARD J. GILLOON, ESQ.
10330 Regency Parkway Drive, Suite 100
Omaha, NE 68114
(402) 397-2200

McMENAMIN LAW GROUP
PAUL R. McMENAMIN, ESQ.
1140 Avenue of the Americas, 9th Floor
New York, New York 10036
(917) 312-8334

Attorneys for Plaintiff eScholar, LLC

April 22, 2020

Plaintiff eScholar LLC (“eScholar”) respectfully submits this Response to the Court’s order that it show cause why the case should not be dismissed for a lack of subject matter jurisdiction.

INTRODUCTION

As noted in the Court’s order to show cause, the recent Supreme Court decision, *Allen v. Cooper*, No. 18-877 Slip op. (Slip op., March 23, 2020)¹, held that Congress had acted unconstitutionally when it provided in the Copyright Remedy Clarification Act that the States “shall not be immune under the Eleventh Amendment” from copyright infringement claims. 17 U.S.C. §511(a).²

Following the order to show cause, eScholar filed an amended complaint (ECF No. 16) that cures the perceived defect respecting federal subject matter jurisdiction. The amended complaint alleges that defendant Nebraska Department of Education (“NDE”) contractually *consented* to suit in this Court. (Point I, *infra*.) The amended complaint also includes a claim for a prospective injunctive relief against the responsible NDE officials, Dean Folkers and Matthew Hastings, who have been named as additional defendants. That claim falls squarely within *Ex Parte Young*, 209 U.S. 123 (1908) and its progeny. (Point II, *infra*.)

¹An un-paginated version of the decision is available at 2020 WL 1325815.

²The decision held that neither the Constitution’s “intellectual property clause,” Article I, §8, cl. 8, nor the Fourteenth Amendment empowered Congress to enact the legislation.

ARGUMENT

Point I

The Eleventh Amendment Does Not Bar the Assertion of Federal Subject Matter Jurisdiction Since NDE Contractually Consented To Suit in Federal Court in its Software License with eScholar

A. NDE Contractually Consented to the Breach of the Software License Claim and Copyright Infringement Claims Being Asserted before this Court

The Software License that eScholar seeks to enforce in this action provides: “The parties consent to the jurisdiction of the federal and state courts of Nebraska for any legal action arising out of this Agreement.” Amended Complaint, **Exhibit B**, Section 12. The Amended complaint cites this consent provision within its jurisdictional allegations at paragraph 10 (“To the extent sovereign immunity under the Eleventh Amendment of the United States Constitution might otherwise apply in favor of NDE, NDE has contractually waived Eleventh Amendment immunity by reason of the November 1, 2004 Software License and Support Agreement (the “Software License”) and amendments to that Software License... [.]”)

Under the relevant case law, that consent by NDE waives Eleventh Amendment sovereign immunity. *E.g., Baum Research and Development Co., Inc. v. University of Massachusetts*, 503 F.3d 1367, 1370 (Fed. Cir. 2007) (state university waived Eleventh Amendment immunity by entering into contract with the plaintiff wherein “all parties agreed to ‘submit to jurisdiction’ of the appropriate federal or state court sitting in Michigan”); *Pettigrew v. Oklahoma ex rel. Oklahoma Dept. of Public Safety*, 722 F.3d 1209, 1211, 1214-1125 (10th Cir. 2013) (Oklahoma waived Eleventh Amendment immunity since its contract with the plaintiff stated that: “In the event that any litigation is commenced by either party to enforce the terms

and conditions of the Agreement, the litigation will be brought in the appropriate Oklahoma court having jurisdiction, either state or federal. . . [.]”); *Oracle America, Inc. v. Oregon Health Insurance Exchange*, 145 F.Supp.3d 1018, 1034 (D. Ore. 2015) (Oregon waived Eleventh Amendment immunity since its contract stated that the parties “agree[d] to submit to the exclusive jurisdiction of, and venue in, if in state Courts, in the Circuit Court of the State of Oregon for Marion County or, if in federal courts, the United States District Court for the District of Oregon.”)

NDE’s contractual waiver of sovereign immunity, of course, extends to eScholar’s First Claim for Relief (Amended Complaint, ¶¶94-99), which is for breach of the same Software License that contains the *consent* to suit in this Court.

NDE’s waiver of sovereign immunity also extends to the eScholar’s copyright infringement causes of action, asserted in the Second and Third Claims for Relief (Amended Complaint, ¶¶100-124), since they also arise out of the Software License agreement.

First, an allegation, such as that made by eScholar, that the licensee, NDE, materially breached the core provisions of the Software License, gives rise to a copyright claim.

For example, eScholar alleges that NDE used work protected by the eScholar Uniq-ID© copyright to design software that it used to replace what it had licensed from eScholar. *See* Amended Complaint, ¶¶54, 58, 112. Such unauthorized use terminates the Software License agreement and gives rise to a copyright infringement claim. *Adobe Systems Incorporated v. A & S Electronics, Inc.*, 153 F.Supp.3d 1136, 144 (N.D.Cal. 2015) (“Adobe’s copyright infringement claim is not premised on whether the serial license key is itself copyright-protected, but rather, the assertion that Defendants *distributed Adobe software in violation of the Reseller Agreement.*” (emphasis added)); *E. Broad. Am. Corp. v. Universal Video, Inc.*, 2006 WL 767871, *2

(E.D.N.Y. March 24, 2006) (“a copyright action can arise once a licensee makes himself a ‘stranger’ to the licensor by using the copyrighted material in a way that exceeds the . . . scope of the license”)

Even if NDE’s use of the copyrighted work were within the scope of the Software License agreement, eScholar additionally alleges that NDE reverse engineered the eScholar Uniq-ID© software, which constitutes wrongful conduct in direct violation of section 2(b) of the Software License. (Amended Complaint, ¶¶13, 35, 47, 56, 59, 65, 67, 86 and 97.) That violation, too, terminated the Software License and gave rise to a copyright infringement claim. For example, in *Frankel v. Stein & Day, Inc.*, 470 F. Supp. 209 (S.D.N.Y.1979), the court found that the defendant’s use of plaintiff’s copyrighted work fell directly within the provisions of the Software License. Nevertheless, the defendant’s breach of another term of the Software License agreement had caused the Software License to terminate and all rights under the copyright statute to revert immediately to the plaintiff. *Id.* at 214

Under these authorities, the copyright infringement claims (Amended Complaint, Second and Third Claims), like the breach of contract claim (Amended Complaint, First Claim) arise out of NDE’s violations of the Software License agreement.

NDE has thus waived sovereign immunity (and consented to suit in federal court) with respect to not only the breach of the contract claim (Amended Complaint, First Claim), but also the copyright infringement claims.

**B. The First, Second and Third Claims
Present a Federal Question**

The copyright infringement claims (the Second and Third Claims), of course, present a federal question and are within the Court’s federal subject matter jurisdiction under 28 U.S.C.

§1331.

The First Claim for breach of the Software License likewise presents a federal question under the Copyright Act since its breach confers upon eScholar rights under that Act. *Scott Griffith Collaborative Solutions, LLC v. Falck Northern California Corp.*, 2020 WL 1548466, *3 (N.D. Cal., January 6, 2020) (“But even if Plaintiff had only alleged a breach of contract claim, subject matter jurisdiction would be present where, as here, the pleadings allege that the defendants’ use of the protected work exceeds the scope of the parties’ licensing agreement.”); *Foxrun Workshop, Ltd. v. Kclone Mfg., Inc.*, 686 F.Supp. 86, 89 (S.D.N.Y.1988) (“jurisdiction is held to exist where the plaintiff brings an action for infringement and alleges that the license has already been terminated for breach of condition”); 5 PATRY ON COPYRIGHT §17:41 (“...[A]n action will arise under the Copyright Act where there is no contract between the parties, or where a contract has expired, where a licensee uses a work in a manner alleged to be outside the scope of the license, or where the contract has already been terminated for breach of a material condition, a claim of infringement will “arise under” the Copyright Act regardless of whether the contract must be construed before determining infringement or ownership rights.”)

Finally, even if this action were viewed as “hybrid,” raising “both copyright and contract issues,” it would still present a federal question since the Third Claim seeks an injunction under the Copyright Act, 17 U.S.C. §502. *See* Amended Complaint, ¶¶119-124. *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 347, 455 (2d Cir. 2000) (“When a complaint alleges a claim or seeks a remedy provided by the Copyright Act, federal jurisdiction is properly invoked.”); *accord: T.B. Harms*, 339 F.2d 823, 828 (2d Cir.1964), *cert. denied*, 381 U.S. 915 (1965); *LC Franchisor, LLC v. Valley Beef, LLC*, 2015 WL 4067054, *3-*4 (E.D. Mo., July 2, 2015) (finding that, though the Eighth Circuit had not addressed the issue, the Fourth, Fifth,

Ninth and Eleventh Circuits had followed the Second Circuit’s “face of the complaint” approach, as articulated in *Bassett* and *T.B. Harms*, and adopting that approach.)

C. The First, Fourth and Fifth Claims Are Within the Court’s Supplemental Jurisdiction

Even if the First Claim (for breach of the Software License agreement) did not itself present a federal question, the Court may assume jurisdiction over it. Under 28 U.S.C. §1367(a), claims that share a common nucleus of operative fact with those that present a federal question are within the court’s supplemental jurisdiction. The First Claim, Fourth Claim (for violation of the Nebraska Trade Secrets Act) and Fifth Claim (for a permanent injunction pursuant to the terms of the Software License and under the Trade Secrets Act) all are based on the same key allegations as those underlying the federal copyright claims, and thus within the court’s supplemental jurisdiction. *See generally: ABF Freight System, Inc. v. International Broth. of Teamsters*, 645 F.3d 954, 963 (8th Cir. 2011).

Point II

The Eleventh Amendment is Not A Bar to the Fifth Claim Which is within the *Ex Parte Young* Exception

In *Ex Parte Young*, 209 U.S. 123 (1908) the Supreme Court recognized, in effect, an exception to Eleventh Amendment sovereign immunity for suits for prospective injunctive relief against the individual state officials responsible for the violations of federal law. The *Ex Parte Young* doctrine provides that “the Eleventh Amendment is not a bar to suits for prospective relief against a state employee acting in his official capacity.” *Nelson v. Univ. of Tex. at Dallas*, 535 F.3d 318, 321–22 (5th Cir. 2008) “This doctrine has existed alongside . . . sovereign-immunity jurisprudence for more than a century, accepted as necessary to permit the federal courts to

vindicate federal rights.” *Va. Office for Protection & Advocacy v. Stewart*, 563 U.S. 247, 254–55 (2011) (citation and internal quotation marks omitted).

The Sixth Claim, which is for a prospective injunction against Folkers and Hastings against future copyright violations fall squarely within the *Ex Parte Young* line of cases, and the Court may assert subject matter jurisdiction over it.

Dated: April 22, 2020

Respectfully submitted,

eScholar, LLC, Plaintiff

By: /s/ Richard J. Gilloon

Richard J. Gilloon, # 15397
Erickson | Sederstrom, P.C.
10330 Regency Parkway Drive, Suite 100
Omaha, NE 68114
(402) 397-2200
rgill@eslaw.com

and

By: /s/ Paul R. McMenamin

Paul R. McMenamin, Esq.
Mcmenamin Law Group
1140 Avenue of the Americas, 9th Floor
New York, New York 10036
paul@mcmenaminlawgroup.com
(917) 312-8334

Attorneys for Plaintiff eScholar, LLC

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above and foregoing eScholar, LLC's Response To The Order That It Show Cause Why Federal Subject Matter Jurisdiction Exists was served on this 22nd day of April, 2020 to:

Mr. Doug Peterson
Nebraska Attorney General
2115 State Capitol
Lincoln, NE 68509

by: ☒ U.S. Mail, postage prepaid
☐ Electronic filing using the JUSTICE system
☐ e-mail
☐ Hand Delivery
☐ Overnight Courier

Kimberly K. Golech