

**IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF OKLAHOMA**

STATE OF OKLAHOMA ex rel.)	
OFFICE OF MANAGEMENT AND)	
ENTERPRISE SERVICES,)	
)	
Plaintiff,)	
)	
-vs-)	NO. CIV-25-1147-HE
)	
KLEO, INC. d/b/a CLASSWALLET,)	
)	
Defendant.)	

ORDER

This case involves a dispute over the administration of federal funds distributed during the COVID-19 pandemic to provide emergency educational support to families and students of low and moderate means. According to the parties’ submissions, the federal government, through the United States Department of Education (USDOE), distributed \$17,350,000 to fund two educational grant programs, Stay in School and Bridge the Gap, which were to be implemented through the Governor’s Emergency Education Relief Fund. The State of Oklahoma, through its Office of Management and Enterprise Services, entered into a contract with defendant Kleo, Inc. d/b/a ClassWallet (“Class Wallet”) to provide services in connection with the administration of the grant programs. The nature of those services, and whether ClassWallet appropriately provided them, is the crux of the dispute in this case.

Oklahoma alleges that ClassWallet breached its contract with the State by (1) “authorizing payments for items not within the scope of the Bridge the Gap grant program;”

(2) “failing to properly educate and advise the applicants of the Programs of related terms and conditions;” (3) “failing to maintain information and records in accordance with the Contract;” and (4) “failing to submit reports to the USDOE.” Doc. #1-1, ¶ 25. It also seeks a declaration that ClassWallet qualified as a “subrecipient” for purposes of the grant programs and was “required to comply with related subrecipient guidelines and obligations, including, but not limited to, submitting to USDOE requisite reports.” *Id.* at ¶ 27. ClassWallet denies it breached its obligations under its contract with the State. It contends that it was contracted only as a technology vendor responsible for creating an online platform through which educational grant applicants could apply for and direct the grant funds. According to ClassWallet, it did not have authority to determine which applicants qualified for the grant funds or which purchases directed by program participants were permissible. Such determinations, ClassWallet asserts, were solely to be made based on instructions from the State.

The history of this case is unusual. It was commenced in the District Court of Oklahoma County, State of Oklahoma, in 2022. After the election of a new Oklahoma Attorney General, the case was dismissed without prejudice based on his assessment that the case lacked merit. It was later refiled in state court by counsel appointed by the Governor of Oklahoma but then dismissed with prejudice by the Oklahoma Attorney General, with both claiming the authority to act for the State as to the case. Proceedings in the case were stayed pending a decision by the Oklahoma Supreme Court as to the authority of the Governor and/or Attorney General, in largely parallel circumstances, to control state

litigation. After a decision was issued,¹ the litigation proceeded, defendant ClassWallet was served with process, and it then removed the case to this court based on the existence of federal question jurisdiction. More recently, the Attorney General has withdrawn his appearance in the case, and it proceeds with the Governor directing the nature of the State's position.

ClassWallet has moved to dismiss the State's claims under Fed. R. Civ. P. 12(b)(6), contending the complaint (i.e. the state court petition) does not state plausible claims against it either for breach of contract or for declaratory judgment. The motion is fully briefed and at issue.

When considering whether plaintiff's claims should be dismissed pursuant to Rule 12(b)(6) for failure to state a claim, the court accepts all well-pleaded factual allegations as true and views them in the light most favorable to the plaintiff as the nonmoving party. S.E.C. v. Shields, 744 F.3d 633, 640 (10th Cir. 2014); Smith v. United States, 561 F.3d 1090, 1097 (10th Cir. 2009). All that is required is "a short and plain statement of the claim showing that the pleader is entitled to relief." Fed. R. Civ. P. 8(a)(2). The petition must, however, contain "enough facts to state a claim to relief that is plausible on its face" and "raise a right to relief above the speculative level." Bell Atlantic Corp. v. Twombly, 550 U.S. 544, 570, 555 (2007). "A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." Shields, 744 F.3d at 640 (quoting Ashcroft v. Iqbal,

¹ See Cherokee Nation v. United States Department of the Interior, 564 P.3d 58 (Okla. 2025).

556 U.S. 662, 678 (2009)). As explained by the Tenth Circuit, the Twombly/Iqbal pleading standard “‘is a middle ground between heightened fact pleading, which is expressly rejected, and allowing complaints that are no more than labels and conclusions or a formulaic recitation of the elements of a cause of action, which the Court stated will not do.’” *Id.* at 640-41 (quoting Khalik v. United Air Lines, 671 F.3d 1188, 1191 (10th Cir.2012)).

Applying the more stringent federal pleading standards to this removed case, the court concludes defendant’s motion should be granted. Fed. R. Civ. P. 81(c)(1). Although the State asserts the contract “explicitly required” ClassWallet to authorize payments within the scope of the Bridge the Gap grant program, the complaint fails to identify or otherwise allege which provision or provisions of the contract explicitly required it. In addition, the court concludes the allegation that ClassWallet issued “payment for items outside the scope of the Bridge of Gap grant program,” doc. #1-1, ¶ 21, is conclusory. *See Iqbal*, 556 U.S. at 681 (conclusory allegations not entitled to be assumed true). The complaint is devoid of underlying facts regarding the nature of payments allowable or not allowable under the Bridge of Gap grant program. The court concludes the factual allegations, viewed in the State’s favor, are not sufficient to state a plausible breach of contract claim based on authorizing payments not within the scope of the Bridge the Gap grant program.

As to the alleged failure to properly educate and advise, the complaint likewise fails to sufficiently allege which provision or provisions of the contract specifically required ClassWallet to educate and advise grant applicants of the programs’ terms and conditions.

It is also devoid of factual content regarding which grant program's terms or conditions ClassWallet allegedly failed to educate and advise grant applicants about.

Next, the court concludes the complaint fails to allege a plausible breach of contract claim based on failing to maintain information and records in accordance with the contract. Although the complaint cites language from the contract that ClassWallet was required to retain records relative to the contract for at least seven years, the complaint's allegation that ClassWallet "either directly or through a subcontractor failed to maintain *all* the records necessary to verify that Applications met the Programs' applicable guidelines," doc. #1-1, ¶ 19 (emphasis added), is conclusory. The complaint lacks factual allegations regarding the records ClassWallet allegedly failed to maintain.

With respect to the alleged failure to submit reports to the USDOE and the requested declaration that ClassWallet was a subrecipient for purposes of the grant programs, the court concludes the factual allegations are insufficient for the court to reasonably infer that ClassWallet qualified as a subrecipient and was therefore required to submit reports to the USDOE in accordance with the programs' guidelines and federal law.

In sum, the court concludes the State's complaint fails to state plausible breach of contract and declaratory judgment claims under federal pleading standards. As the pleading deficiencies are potentially subject to being remedied by amendment, the motion will be granted and the purported claims dismissed, but with leave to the plaintiff to file an amended complaint. Any amended complaint must be filed within **fourteen (14) days**.

Accordingly, for the reasons stated above, defendant's motion to dismiss [Doc. #15] is **GRANTED**. Plaintiff's claims are dismissed without prejudice but with leave to file an

amended complaint within **fourteen (14) days** from the date of this order. Absent the filing of an amended complaint within that time period, the case will be dismissed without further notice to the parties.

IT IS SO ORDERED.

Dated this 13th day of January, 2026.



JOE HEATON
UNITED STATES DISTRICT JUDGE