UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MINNESOTA

HSK LLC (d/b/a ZEROREZ) Plaintiff, v. UNITED STATES OLYMPICS COMMITTEE, Defendant.	Civil File No. 16-civ-02641 (WMW-KMM) **PLAINTIFF'S MEMORANDUM OF LAW IN OPPOSITION TO DEFENDANT'S MOTION TO DISMISS**

Plaintiff HSK LLC ("Zerorez") submits this memorandum of law in opposition to Defendant United States Olympics Committee's ("USOC") motion to dismiss.

INTRODUCTION

Zerorez opposes USOC's Motion to Dismiss for lack of subject matter jurisdiction under Rule 12(b)(1) of the Federal Rules of Procedure for the reasons discussed herein. First, the law is well established that an evidentiary hearing should precede a Rule 12(b)(1) motion to dismiss. Second, the Complaint sufficiently establishes the requisite "controversy" for subject matter jurisdiction.

In summary, this case is about a small business asking this Court to declare it may share its Olympic spirit on social media without fear of legal reprisal from the USOC. To the extent this Court is willing, Zerorez seeks a declaration that provides at least some guidance to millions of patriotic small businesses in the United States who would also like to share their Olympic spirit online.

The USOC was created by Congress to foster the Olympic spirit in the United States and provide a framework for United States athletes to participate in the Olympic Games.

See 36 U.S.C. § 220503 (2012). Federal law gives the USOC exclusive right to the Olympic symbol, the word Olympic, and other Olympic marks. *Id.* § 220506.

The USOC wrote and published a document titled U.S. Olympic and Paralympic Brand Usage Guidelines ("Policies"). (Compl. ¶ 12.) These Policies declare that businesses may not mention the Olympics in social media, threatening the USOC may "file a lawsuit against any entity using USOC trademarks, imagery or terminology for commercial purposes without express written consent" and "[t]he USOC is committed to protect its intellectual property rights." (*Id*. ¶ 13.) Despite a 2010 U.S. Supreme Court decision holding that businesses have First Amendment free speech rights, *Citizens United v. Fed. Election Comm'n*, 558 U.S. 310, 315 (2010), the USOC threatened businesses who use "Olympics" on social media while telling individuals they are free to express their Olympic spirit online. (Compl. ¶¶ 12-16.)

The popularity of social media increased the likelihood that patriotic businesses would share their Olympic spirit online. In response, the USOC began generating a plethora of cease and desist letters and emails to those who had purportedly violated the USOC's rights, as declared in its Policies. (*See, e.g.*, *id.* ¶ 15.) The USOC threatened and commenced litigation against various purported violators of its Policies. (*Id*. ¶¶ 14-16.)

Zerorez is a privately owned carpet cleaning company in a suburb of Minneapolis. (*Id*. ¶ 1.) Zerorez planned to share its Olympic spirit on social media until learning the USOC was threatening legal action against businesses who used "Olympics" online or otherwise violated its Policies. (*Id*. l. ¶¶ 10-11, 18-21.) Instead of finding itself a defendant in a lawsuit with the USOC, Zerorez decided to suspend its plans to share its Olympic excitement on social media and initiate this case. (*Id*. ¶¶ 23-24.) This case asks this Court to declare whether Zerorez may proceed without fear of reprisal from the USOC.

(*Id*. ¶¶ 24-27.)

I. Defendant's Motion is Improper and Should Therefore Be Dismissed.

Prior to dismissing a case for lack of jurisdiction, a defendant should move for an evidentiary hearing, and a plaintiff is entitled to jurisdictional discovery.

A. An Evidentiary Hearing on Jurisdiction Should Precede a Rule 12(b)(1) Dismissal.

The law is well established that an evidentiary hearing should precede a Rule 12(b)(1) motion to dismiss. "If the defendant thinks the court lacks jurisdiction, the proper course is to request an evidentiary hearing on the issue" where witnesses may testify. *Osborn v. United States*, 918 F.2d 724, 730 (8th Cir. 1990). Unlike a 12(b)(6) motion, a 12(b)(1) motion is based on weighing the underlying evidence. *See id.*

> Because at issue in a factual 12(b)(1) motion is the trial court's jurisdiction—its very power to hear the case—there is substantial authority that the trial court is free to weigh the evidence and satisfy itself as to the existence of its power to hear the case. In short, no presumptive truthfulness attaches to the plaintiff's allegations, and the existence of disputed material facts will not preclude the trial court from evaluating for itself the merits of jurisdictional claims.

Id.

Prior to an evidentiary hearing on the issue of jurisdiction, USOC's motion is improper and should be dismissed. *See id.* While the USOC could have sought an evidentiary hearing, the USOC brought this improper motion. *See id.* In light of the USOC bringing this motion, which is improper under established law, Zerorez requests an Order directing USOC to reimburse Zerorez for its costs and fees to defend against this Motion, upon filing an affidavit of costs and fees.

B. In the Alternative, Zerorez Requests Leave to Conduct Jurisdictional Discovery.

If this Court is inclined to grant USOC's motion to dismiss, Zerorez requests leave

to file a motion seeking jurisdictional discovery and an evidentiary hearing. *See id.* at 730.

"[W]here issues arise as to jurisdiction or venue, discovery is available to ascertain the facts bearing on such issues." *Oppenheimer Fund, Inc. v. Sanders*, 437 U.S. 340, 351 (1978); *Pudlowski v. St. Louis Rams, LLC*, 829 F.3d 963, 964 (8th Cir. 2016). "When a party challenges the allegations supporting subject-matter jurisdiction, the court has wide discretion to allow affidavits, other documents, and a limited evidentiary hearing to resolve disputed jurisdictional facts." *Young v. Vannerson*, 612 F. Supp. 2d 829, 836–37 (S.D. Tex. 2009). Where discovery could demonstrate facts sufficient to establish a basis for jurisdiction, it is an abuse of discretion to deny it. *Harris Rutsky & Co. Ins. Serv. v. Bell & Clements*, 328 F.3d 1122, 1135 (9th Cir. 2003). A defendant's "[p]rior litigious conduct is one circumstance to be considered in assessing whether the totality of circumstances creates an actual controversy." *U.S. Water Services, Inc. v. ChemTreat, Inc.*, 794 F.3d 966, 973 (8th Cir. 2015).

Here, jurisdictional discovery would provide additional support to demonstrate a controversy exists. As merely one example, jurisdictional discovery would reveal the full extent of USOC's threats and litigation against small business owners who violated USOC Policies, thereby demonstrating the "reasonableness" of Zerorez's "apprehension" that it could be subject to liability. *See, e.g., U.S. Water Services, Inc.*, 794 F.3d at 973.

II. This Case Presents Sufficient "Controversy" to Avoid the Need for an Evidentiary Hearing

The Complaint sufficiently established a "controversy" under the relaxed jurisdiction standard required for a plaintiff seeking declaratory relief.

A. Federal Declaratory Judgment Act

Zerorez brought this case under the Federal Declaratory Judgment Act ("FDJA"): "In a case of actual controversy within its jurisdiction . . . any court of the United States,

upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought." 28 U.S.C. § 2201.

B. Minnesota Declaratory Judgment Act

Zerorez also pled the Minnesota Declaratory Judgment Act ("MDJA"), which grants Zerorez a broader basis to seek declaratory judgment relief. Minn. Stat. § 555.02 (2016). Under MDJA, "[a]ny person . . . whose rights, status, or other legal relations are affected by a statute . . . or franchise may have determined any question of construction or validity arising under the . . . statute . . . or franchise and obtain a declaration of rights, status, or other legal relations thereunder." *Id.* Unlike federal law, the MDJA grants Zerorez a right to "have determined any question of construction or validity arising under the . . . statute . . . or franchise and obtain a declaration of rights." *See id.* Also unlike the FDJA, MDJA does not expressly require a "case or controversy" to bring a declaratory judgment action. *See id.*

C. Declaratory Judgment Actions Regarding Intellectual Property Rights

"Declaratory judgment actions asserting intellectual property rights are usually brought by potential infringers seeking a declaration of noninfringement or invalidity. *Young v. Vannerson*, 612 F. Supp. 2d 829, 838 (S.D. Tex. 2009) (citing e.g., *Lang v. Pac. Marine & Supply Co., Ltd*., 895 F.2d 761, 763 (Fed. Cir.1990)). A case or controversy must exist to establish Article III subject matter jurisdiction. *See Medlmmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 126-27 (2007).

> In the declaratory judgment context, the difference between an abstract question and an Article III case or controversy 'is necessarily one of degree, and it would be difficult ... to fashion a precise test for determining in every case whether there is such a controversy. Basically, the question in each case is whether the facts alleged, under all the circumstances, show that there is a

> substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.'

Maytag Corp. v. Int'l Union, United Auto., Aerospace & Agric. Implement Workers of Am., 687 F.3d 1076, 1081 (8th Cir. 2012); *see also Medlmmune, Inc.*, 549 U.S. at 127.

D. This Court has Broad Discretion and Should Liberally Construe Facts to Find a "Controversy."

The trial court has broad discretion in finding facts to support jurisdiction. *Maytag Corp*., 687 F.3d at 1083 (quoting *Wilton v. Seven Falls Co*., 515 U.S. 277, 286 (1995)). "Since its inception, the Declaratory Judgment Act has been understood to confer on federal courts unique and substantial discretion in deciding whether to declare the rights of litigants." *Id.* In declaratory judgment cases, "the finding of an actual controversy should be determined with some liberality." *Starter Corp. v. Converse, Inc*., 84 F.3d 592, 596 (2d Cir. 1996).

E. If the USOC Could Sue for Infringement, This Court has Jurisdiction in a Declaratory Judgment Action.

A "controversy" exists where a plaintiff in a declaratory judgment action is seeking to avoid an infringement suit from a defendant, which by its very nature would be a "controversy." *ABB Inc. v. Cooper Indus., LLC*, 635 F.3d 1345, 1349 (Fed. Cir. 2011)

> In determining whether there is federal subject matter jurisdiction for declaratory judgment actions: "[I]t is the character of the threatened action, and not of the defense, which will determine whether there is federal-question jurisdiction in [federal] District Court. In other words, the court examines the declaratory *defendant's* hypothetical well-pleaded complaint to determine if subject matter jurisdiction exists. . . . When the declaratory defendant's hypothetical suit arises under federal law, "[w]hat is litigated in such a situation is 'the precise issue which could have been litigated in federal court in a coercive action brought by' the declaratory defendant."

Id. at 1349-50 (citations omitted; emphasis in original).

Here, if Zerorez were to have tweeted "Minnesotans, how are you celebrating the Olympics tonight," and the USOC sued Zerorez for unlawfully tweeting "Olympics," the case obviously would have presented a controversy. Thus, under the controversy rule for declaratory judgment actions, "controversy" is present in this Case.

F. Zerorez Had Reasonable Apprehension It Would Be Subject to Liability.

Zerorez pled it had multiple reasons to be concerned about liability if it mentioned the Olympics on social media. (Compl. ¶¶ 12-17.) These included the Policies, media reports, and actual lawsuits where the USOC sued those who violated its Policies. (*Id.*)

Courts have found an "actual controversy" exists where "the plaintiff has a real and reasonable apprehension that he will be subject to liability," "focused upon the position and perceptions of the plaintiff." *Chesebrough-pond's, Inc. v. Faberge, Inc.*, 666 F.2d 393, 396 (9th Cir. 1982). A defendant's acts and threats are "to be examined in view of their likely impact on competition and the risks imposed upon the plaintiff, to determine if the threat perceived by the plaintiff were real and reasonable." *Id.* "[P]roving a reasonable apprehension of suit is one of multiple ways that a declaratory judgment plaintiff can satisfy the more general all-the-circumstances test to establish that an action presents a justiciable Article III controversy." *U.S. Water Services, Inc.*, 794 F.3d at 973. "[A] showing [of reasonable apprehension of suit] remains sufficient to establish jurisdiction" and "the declaratory judgment defendant need not 'directly accuse [the declaratory judgment plaintiff] of potential indirect infringement.'" *Id.*

In one case, the potential of litigation discussed in a *Wall Street Journal* article was sufficient to create "reasonable apprehension." *In re Dr. Reddy's Laboratories, Ltd.*, 01 CIV. 10102 (LAP), 2002 WL 31059289, at *8 (S.D.N.Y. Sept. 13, 2002) ("[defendant's] threatening public statements directed to the generic . . . industry coupled with [plaintiff

taking related actions] leads to the conclusion that [plaintiff] had a reasonable apprehension").

A defendant's "[p]rior litigious conduct is one circumstance to be considered in assessing whether the totality of circumstances creates an actual controversy." *See U.S. Water Services, Inc*., 794 F.3d at 973.

Here, the Complaint provides a *prima facia* basis for Zerorez's "reasonable apprehension" that it would be subject to liability if it discussed the Olympics on social media. (Compl. ¶¶ 12-17.) This "reasonable apprehension" is sufficient to establish a "controversy" for Article III jurisdiction.

G. Even if Zerorez Had No "Reasonable Apprehension," a Controversy Still Exists.

Even where plaintiffs do not have a "reasonable apprehension," a controversy may exist by examining a "totality of the circumstances." *See U.S. Water Services, Inc*., 794 F.3d at 973 (summarizing the test established in *Medlmmune, Inc.*, 549 U.S. at 127). Under this test, the question is "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment." *Id.*

"[P]ost-MedImmune decisions, while not attempting to define the outer boundaries of declaratory judgment jurisdiction, have made clear that a declaratory judgment plaintiff does not need to establish a reasonable apprehension of a lawsuit in order to establish that there is an actual controversy between the parties." *Young*, 612 F. Supp. 2d at 840.

Here, the Complaint indicates there is a substantial controversy between Zerorez and the USOC because the USOC publicly threatened legal action if any business mentioned the Olympics on social media, and but for this threat, Zerorez would have shared its Olympic spirit on social media. (*See generally* Compl. ¶ 19.) In addition, the

facts presented in the Complaint evidence the Parties have adverse legal interests. Finally, the "immediacy and reality" is obvious with the repeating frequency of the Summer Games, Winter Games, and Paralympic Games. (*Id.* ¶ 25.)

H. Zerorez is Not Required to Show the USOC Would Have Filed Suit.

Zerorez need not prove specific threats from the USOC nor that the USOC was likely to sue to establish a "controversy." *Medlmmune, Inc.*, 549 U.S. at 129.

"[A] specific threat of infringement litigation . . . is not required to establish jurisdiction." *ABB Inc.*, 635 F.3d at 1348. "[T]he Supreme Court has repeatedly found the existence of an actual case or controversy even in situations in which there was no indication that the declaratory judgment defendant was preparing to enforce its legal rights." *U.S. Water Services, Inc.*, 794 F.3d at 973.

Here, general threats from the USOC in its publicized Policies, coupled with media reports of the USOC's cease and desist letters and litigation against purported violators, was sufficient to establish "controversy."

I. Intent and Ability to Use a Potentially Infringing Mark is Sufficient to Establish "Controversy."

Zerorez was and is ready, willing, and able to mention the "Olympics" on social media, evidencing an actual adversarial conflict.

Controversy is established where a plaintiff has intent and ability to engage in purportedly illegal activities related to a defendant's intellectual property rights. *See SanDisk Corp.*, 480 F.3d at 1381. Where steps a plaintiff "has taken are specific and evidence a concrete intention to use" a trademark owned by a defendant, "there is the requisite adversarial conflict . . . to meet the actual case or controversy requirement, and declaratory jurisdiction is therefore proper." *See Starter Corp.*, 84 F.3d at 597. A "case or controversy exists in the trademark context "where a party has engaged in a course of

conduct evidencing a 'definite intent and apparent ability to commence use' of the [allegedly infringing] marks . . . ." *Young*, 612 F. Supp. 2d at 839 (*citing Starter Corp.*, 84 F.3d at 595–96). "Where [an owner of intellectual property] asserts rights . . . based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights." *SanDisk Corp.*, 480 F.3d at 1381 (noting this "holding is consistent with decisions of other courts in various cases").

Here, it does not take much for Zerorez to demonstrate an intent and ability to post about the Olympics on social media. Zerorez had taken steps to establish social media accounts. (Compl. ¶¶ 6-9.) Zerorez regularly posted on its social media accounts. *Id.* Zerorez pled its intent to post about the Olympics. (*Id*. ¶¶ 10-11.) Accordingly, a "controversy" was present.

J. Zerorez Need Not Engage in Purportedly Illegal Activity to Establish a Controversy for Article III Jurisdiction.

In support of its motion to dismiss, the USOC argued "there is no 'dispute,' let alone a 'concrete' one," because "[Zerorez] does not allege that it actually made any such statements [about the Olympic Games on social media], and in fact, [Zerorez] expressly represented that it would not do so." (Def.'s Mem. at 2.)

The "controversy" requirement for Article III jurisdiction does not require plaintiffs to engage in potentially illegal behavior to be satisfied. *See Medlmmune, Inc.*, 549 U.S. at 129. Here, Zerorez did not need to post on social media, in violation of USOC's express threats and Policies, to establish a controversy to bring this action. *See id.*

"[T]he declaratory judgment procedure is an alternative to pursuit of the arguably

illegal activity." *Id.* (*citing Steffel v. Thompson*, 415 U.S. 452, 480 (1974)). "[P]utting the challenger to the choice between abandoning his rights or risking prosecution—is "a dilemma that it was the very purpose of the Declaratory Judgment Act to ameliorate.'" *Id.* (citing *Abbott Laboratories*, 387 U.S. at 152). "Even when a plaintiff cannot establish a reasonable apprehension of suit, the case or controversy requirement is 'met where the [defendant] takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do.'" *Young*, 612 F. Supp. 2d at 841 (*citing SanDisk Corp.*, 480 F.3d at 1381). "The courts have repeatedly held that actual [infringement] is not essential and that it is sufficient that the party charged is about to infringe or take some action which is prejudicial to the interests of the [defendant]." *Welch v. Grindle*, 251 F.2d 671, 678 (9th Cir. 1957). "One does not have to await the consummation of threatened injury to obtain preventive relief. If the injury is certainly impending, that is enough." *Super Prod. Corp. v. D P Way Corp.*, 546 F.2d 748, 755 (7th Cir. 1976) (quoting *Regional Rail Reorganization Act Cases*, 419 U.S. 102, 143 (1974)). "The Second Circuit has said that requiring a plaintiff who has established an ability and a definite intention to manufacture an infringing product actually to undertake manufacture before being entitled to discover whether such action was illegal would create unnecessary delay and economic waste." *Super Prod. Corp.*, 546 F.2d at 754 (citing *Wembley, Inc. v. Superba Cravats*, Inc., 315 F.2d 87, 90 (2d Cir. 1963)).

Here, Zerorez brought this case to ask for a declaration of its rights rather than expose itself to liability for actions the USOC purported were illegal and made clear it would "file a lawsuit against any entity using USOC trademarks, imagery or terminology for commercial purposes without express written consent." (Compl. ¶¶ 12-13.) Giving Zerorez the right to a declaration before it engages in potentially illegal conduct fits

squarely within the purposes of a declaratory judgment. *See, e.g.*, *Medlmmune, Inc.*, 549 U.S. at 129.

K. Zerorez has Already Been Injured by USOC's Threats, Chilling Its First Amendment Free Speech Rights, Thereby Providing Further Evidence of a "Controversy."

Zerorez was injured in fact by the chilling of its First Amendment free speech rights. The USOC's Policies, cease and desist letters to countless businesses, and litigation against businesses who violate its Policies have had a chilling effect on Zerorez, and potentially millions of other businesses in the United States. (Compl. ¶¶ 19-21.)

The Policies include specific restrictions on businesses that do not apply to individuals. (*Id.* ¶ 13(c), 13(d), 13(g).) Written communications from the USOC, which appeared to be a template sent to many business owners and published in the media, repeatedly asserted the USOC's ban on business speech while encouraging such posting on "individual or personal social media accounts." (*Id.* ¶ 15.) The law is unambiguous: businesses have First Amendment free speech rights. *See, e.g.*, *Citizens United*, 558 U.S. at 315.

The USOC has already caused injury to Zerorez, limiting its constitutional right to free speech, and the injury continues as long as Zerorez's free speech rights are chilled by the USOC's threats. The fact that Zerorez is not seeking damages for these injuries does not mean there is no controversy.

III. Federal Court is Preferable to State Court for the Federal Subject Matter at Issue in This Case.

The USOC argues this Court does not have subject matter jurisdiction to hear this case. This case could be transferred to state court, because Zerorez has a cause of action and claim under the MDJA, which does not have the "controversy" requirement of Article III courts. *See* Minn. Stat. § 555.02. However, federal court is the most appropriate forum

because of the federal subject matter at issue.

Federal courts have original jurisdiction in trademark cases. 28 U.S.C. 1338(b) (2012). Federal courts have original jurisdiction in cases involving the USOC's unique rights. 36 U.S.C. § 220505(b)(9). Thus, this case is most properly heard in federal court.

If the Court is inclined to grant USOC's motion to dismiss, and not allow Zerorez to conduct jurisdictional discovery, Zerorez hereby requests leave to bring a motion to transfer this case to Minnesota State District Court.

IV. No Response is Required to USOC's Second Argument

The USOC's second argument (under the heading "Plaintiff Does Not Seek Specific Relief") is irrelevant to a Rule 12(b)(1) motion because it has no bearing on subject matter jurisdiction. (Def.'s Mem. at 4-6.) Arguments on whether Zerorez seeks specific relief would be relevant to a Rule 12(b)(6) motion on the pleadings, but not a Rule 12(b)(1) motion on whether the evidence satisfies the controversy requirement for subject matter jurisdiction. *See Osborn*, 918 F.2d at 730. Accordingly, no response is required.

CONCLUSION

First, a motion to dismiss under Rule 12(b)(1) is not proper before an evidentiary hearing, so this motion should be dismissed, with an award to Zerorez for its costs and fees to defend against this motion. Second, the facts in the Complaint present a sufficient "controversy" to establish Article III jurisdiction, so no evidentiary hearing should be necessary.

Accordingly, Zerorez respectfully requests USOC's motion to dismiss be denied in its entirety, and further requests that the Court order USOC to reimburse Zerorez its reasonable costs and fees in responding to this improper motion, upon the filing of an affidavit of costs and fees incurred by Zerorez.

Respectfully submitted,

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Dated: October 21, 2016.

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