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ET U.S. DEPARTMENT OF COMMERCE
U.S. Patent and Trademark Office

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):
Norton Acquisition Corporation (a) 9-16-02
Norton Motorcycles, Inc. (b)

☐ Individual(s) ☐ Association
☐ General Partnership ☐ Limited Partnership
☑ Corporation-State (a) Minnesota
☐ Other (b) Colorado

Additional name(s) of conveying party(ies) attached? ☐ Yes ☐ No

2. Name and address of receiving party(ies)
Name: Robert E. Cieslukowski
Internal Address:
Street Address: 9226 Breckinridge LN
City: Eden Prairie State: MN Zip: 55347
☑ Individual(s) citizenship USA
☐ Association
☐ General Partnership
☐ Limited Partnership
☐ Corporation-State
☐ Other
If assignee is not domiciled in the United States, a domestic representative designation is attached: ☐ Yes ☐ No
(Designations must be a separate document from assignment)
Additional name(s) & address(es) attached? ☐ Yes ☐ No

3. Nature of conveyance:
☐ Assignment ☐ Merger
☐ Security Agreement ☐ Change of Name
☑ Other Judgment Lien
Execution Date: September 10, 2002

4. Application number(s) or registration number(s):
A. Trademark Application No.(s) 74/493,245; 75/463,812; 75/463,811; 75/462,570; 75/463,824
B. Trademark Registration No.(s) 2,525,318; 2,084,188
Additional number(s) attached ☐ Yes ☐ No

5. Name and address of party to whom correspondence concerning document should be mailed:
Name: Michael A. Bondi
Internal Address:
Street Address: 4800 IDS Center
80 South 8th Street
City: Minneapolis State: MN Zip: 55402

6. Total number of applications and registrations involved: ..... 7

7. Total fee (37 CFR 3.41).....$ 190.00
☑ Enclosed
☐ Authorized to be charged to deposit account

8. Deposit account number:
16-0631

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9. Signature

Michael A. Bondi
Name of Person Signing

Michael Bondi
Signature

09/11/02
Date

Total number of pages including cover sheet, attachments, and document:

Mail documents to be recorded with required cover sheet information to:
Commissioner of Patent & Trademarks, Box Assignments
Washington, D.C. 20231

**UNITED STATES DISTRICT COURT**

**DISTRICT OF MINNESOTA**

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ROBERT E. CIESLUKOWSKI,

Plaintiff,

v.

NORTON MOTORS INTERNATIONAL, INC.; NORTON MOTORCYCLES, INC., f/k/a Hallmark Properties, Inc.; NORTON ACQUISITION CORP.; MYRON CALOF; and MARK OSTERBERG,

Defendants.

Civil No. 99-1056 (JRT/FLN)

**MEMORANDUM OPINION AND ORDER**

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Donald W. Niles and Norman M. Abramson, PATTERSON, THUENTE, SKAAR & CHRISTENSEN, P.A., 4800 IDS Center, 80 South Eighth Street, Minneapolis, MN 55402, for plaintiff.

Scott R. Carlson, DUCKSON-CARLSON, LLC, 2100 Metropolitan Centre, 333 South Seventh Street, Minneapolis, MN 55402, for defendants.

This matter is now before the Court on plaintiff's motion for a preliminary injunction, and on several post-trial motions: (1) plaintiff's Motion for Equitable Lien and Order to Show Cause; (2) defendant Norton Motorcycles' Motion to Stay Enforcement of Judgment / Motion for Judgment as a Matter of Law and for New Trial; (3) plaintiff's Motion for a New Trial; and (4) plaintiff's Motion for Recovery of Attorneys' Fees. The Court heard oral argument on the Motion for Preliminary

Injunction on August 20, 2002.[1] For the reasons discussed below, the Court now issues a preliminary injunction, preventing the defendants in this case from transferring the NORTON trademarks or any interest in those marks pending further order of this Court. The Court also imposes an equitable lien on the NORTON trademarks in favor of the plaintiff, to secure his judgment in this case.

## BACKGROUND

This case has a somewhat tortured history, and involves a web of interconnected individuals, companies, and transactions. While the Court wishes to avoid excessive discussion of the facts, a fairly detailed examination of the facts is necessary to understand the issues in this case.

### I. The Parties and the April 1999 Transfers

The **Aquilini family** is not a party to this lawsuit, but its activities are relevant to understanding nearly every aspect of this case. The Aquilinis own and operate the Aquilini Investment Group, a Vancouver-based business that serves as an umbrella for several other family-owned companies. Defendant **Myron Calof** ("Calof") was an employee of the Aquilini family. At various times, Calof managed each of the three defendant companies on behalf of the Aquilinis. Defendant **Norton Motors, International** ("Norton Motors") was an Aquilini-controlled company, of which Calof

[1] On August 5, 2002, the Court held a telephone conference to hear argument on plaintiff's motion for a temporary restraining order. The Court denied that motion.

was a director and CEO. It was formed ostensibly to manufacture and market motorcycles. On April 7, 1999, Norton Motors transferred all of its assets to a new company called **Norton Acquisition Corporation** ("Norton Acquisition"), another defendant in this case. Calof also served as an officer and director of Norton Acquisition, and Roberto Aquilini was a director of Norton Acquisition. On April 16, 1999, Norton Acquisition transferred all of its assets to Hallmark Properties, another Aquilini-controlled company. In exchange for these assets, Norton Acquisition acquired approximately 85% of the stock in Hallmark Properties, which changed its name to **Norton Motorcycles, Inc**, the third corporate defendant here. Calof was named a director and CEO of Norton Motorcycles, and Roberto Aquilini was a director of that company until August 1, 2002. **Global Coin, Inc.** is not a party to this lawsuit, but its activities are relevant, as will be seen below. Global Coin is a Vancouver based company and is also controlled by the Aquilinis. Global Coin was a principal shareholder in Norton Motors. Roberto Aquilini is an officer and owner of Global Coin, and Calof formerly worked for Global Coin. Plaintiff **Robert Cieslukowski** was an investor in and, for a time in 1998, CEO of Norton Motors.[2]

## II. The Lawsuit, Summary Judgment, and Subsequent Transfers

After leaving his job as CEO of Norton Motors in 1998, plaintiff entered into a Repayment Agreement with defendant Myron Calof on behalf of Norton Motors, under

[2] Mark Osterberg is no longer a party to this case.

which the company promised to repay plaintiff's investment in the company. Plaintiff later sued Norton Motors for breach of this agreement, successor liability, fraudulent conveyance, and fraud. On March 22, 2000, Magistrate Judge Franklin Noel issued a Report and Recommendation, recommending summary judgment in favor of plaintiff on the issue of breach against defendant Norton Motors.

On the following day, defendant Calof, acting on behalf of defendant Norton Acquisition, apparently took out a loan for $200,000 from a company called Circle Capital. At the time, Norton Acquisition had no assets other than stock representing 85% ownership in defendant Norton Motorcycles. Norton Acquisition defaulted on this loan, and its stock in Norton Motorcycles was delivered to Circle Capital in satisfaction of the debt.

On July 13, 2000, this Court adopted the Magistrate Judge's Report and Recommendation and entered judgment against Norton Motors in the amount of $634,720.39. Because of the transfers discussed above, by this date Norton Motors had no assets, Norton Acquisition had no assets, and Norton Motorcycles had no assets other than several federal trademark registrations and applications (the "NORTON marks").[3]

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[3] On March 1, 2000, Calof had assigned Norton Motors' trademark registrations and applications to Norton Motorcycles. The assignment was recorded with the U.S. Patent and Trademark Office on May 1, 2000.

These "NORTON marks" consist of the following United States trademark registrations and applications:

(Footnote continued on next page.)

Because Norton Motors had no assets, plaintiff proceeded to trial on the issues of successor liability and fraudulent conveyance against Norton Acquisition, Norton Motorcycles, and of fraud and fraudulent conveyance against Calof.

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(Footnote continued.)

1. Mark: NORTON
   Application No. 74493245 Filing Date: 02/22/94
   Registration No. Issue Date:
   Drawing Type: Words, Letters, or Numbers in Typed Form

2. Mark: NORTON
   Application No. 75463824 Filing Date: 04/07/98
   Registration No. Issue Date:
   Drawing Type: Words, Letters, or Numbers and Design

3. Mark: COMMANDO
   Application No. 75463812 Filing Date: 04/07/98
   Registration No. 2525318 Issue Date: 01/01/02
   Drawing Type: Words, Letters, or Numbers in Typed Form

4. Mark: INTERNATIONAL
   Application No. 75463811 Filing Date: 04/07/98
   Registration No. Issue Date:
   Drawing Type: Words, Letters, or Numbers in Typed Form

5. Mark: MANX
   Application No. 75462570 Filing Date: 04/06/98
   Registration No. Issue Date:
   Drawing Type: Words, Letters, or Numbers in Typed Form

6. Mark: NEMESIS
   Application No. 75462556 Filing Date: 04/06/98
   Registration No. Issue Date:
   Drawing Type: Words, Letters, or Numbers in Typed Form

7. Mark: NORTON
   Application No. 74152797 Filing Date: 04/01/91
   Registration No. 2084188 Issue Date: 07/29/97
   Drawing Type: Stylized Words, Letters, or Numbers

## III. Jury Verdict and Subsequent Actions

The case was tried before a jury in January 2002. On January 31, 2002, the jury found that both Norton Acquisition and Norton Motorcycles were successors to the debts of Norton Motors. The jury also found that Norton Acquisition had committed a fraudulent conveyance, but that Norton Motorcycles had not done so. Finally, the jury found that Calof was not liable for fraud. Judgment in this case was entered on February 7, 2002. On February 13, 2002, plaintiff's notice of his interest in the NORTON marks was recorded by the U.S. Patent and Trademark Office ("USPTO").

Approximately twenty minutes after the jury announced its verdict on January 31, 2002, Global Coin obtained a writ of execution in Hennepin County District Court on a debt judgment it had obtained against Norton Motors approximately sixteen months earlier (the "first Hennepin County action").[4] Global Coin was represented in that proceeding by the Duckson-Carlson law firm, which represented the Norton defendants in this case.

On February 20, 2002, Global Coin, now with new counsel, filed another lawsuit in Hennepin County District Court against Norton Acquisition and Norton Motorcycles (the "second Hennepin County action"). At the time, Myron Calof and Roberto Aquilini appear to have had management and/or fiduciary roles at **both** Global Coin and at Norton Motors or Norton Acquisition. In that action, Global Coin sought to collect a debt from Norton Motors, claiming that Norton Acquisition and Norton Motorcycles were "liable as

[4] Judgment in the first Hennepin County action was entered on September 17, 2000.

successors for the debts of Norton Motors." (*See* Abramson Aff. Ex. N. ¶ 23.) In support of this contention, Global Coin attached to its Complaint a copy of the jury's verdict form and the Court's Order for Judgment in this case, arguing that this Court's judgment was *res judicata* on the question of successor liability.

Norton Acquisition and Norton Motorcycles apparently chose not to contest the second Hennepin County action, and it ended in default judgment. The record suggests that Global Coin knew the two Norton defendants would default, because Global Coin filed its Affidavit of No Answer in Hennepin County District Court on March 7, 2002. At that point, the Norton defendants still had five days to file an answer. Default judgment in the amount of $4,122,871.48 was entered on behalf of Global Coin in Hennepin County on March 19, 2002. Global Coin obtained a Writ of Execution on that judgment on March 22, and recorded its writ with the USPTO on April 5, 2002. This writ shows no return of service.

Plaintiff's motion for injunctive relief arises out of Global Coin's default judgment in the second Hennepin County action. Having obtained its default judgment, Global Coin apparently felt it had obtained title to the NORTON marks, which were the Norton defendants' only assets. On July 24, 2002, Global Coin entered into a license and purchase agreement with a public company called Freedom Motorcycles ("Freedom").[5]

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[5] Counsel for Freedom represents that it is wholly independent from the Aquilinis and their companies. The record, however, suggests otherwise. For instance, Myron Calof testified at trial that Freedom's vice president, John Lai, was involved in the April 1999 transfers between Norton Motors, Norton Acquisition, and Norton Motorcycles. (*See* Abramson Aff. Ex. C, p. 123 (stating that Lai had "been there every step of the way").) Furthermore, Freedom's current attorney, Robert Knutson, served as counsel for Norton Motors in the first Hennepin County

(Footnote continued on next page.)

Under this agreement, Freedom would obtain license rights to the NORTON marks in North America, with an option to purchase the marks for $2.5 million. On August 6, 2002, one day after the Court heard argument on plaintiff's motion for a temporary restraining order, Freedom issued a press release announcing its "acquisition of the registered Norton trademarks for North America pursuant to a license and acquisition agreement with Global Coin Inc., of Vancouver." (Abramson Aff. Ex. S.) Freedom also held a conference call to discuss its merger plans with an internet service provider, and to speak with prospective investors.

## ANALYSIS

### I. Plaintiff's Motion for Preliminary Injunction

#### A. Standard of Review

In the Eighth Circuit, a preliminary injunction may be granted only if the moving party can demonstrate: (1) that the movant will suffer irreparable harm absent the preliminary injunction; (2) a likelihood of success on the merits; (3) that the balance of

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(Footnote continued.)

(stating that Lai had "been there every step of the way").) Furthermore, Freedom's current attorney, Robert Knutson, served as counsel for Norton Motors in the first Hennepin County action against Global Coin. Finally, Freedom's website announced to the public that one of its directors was Todd Duckson, managing partner of the firm that represents all the defendants in this case. (*See* Abramson Aff. Ex. E.) Counsel for Freedom stated at the hearing that Mr. Duckson was never, in fact, a director of that company, but was only considered as a "nominee director." The Court accepts this statement, but that does not change the fact that Duckson, whose firm represented the Aquilini-controlled Norton defendants, clearly was closely involved with Freedom Motorcycles. Public access to the Freedom Motorcycles website now appears to have been suspended. *See* <http://www.freedommotorcycles.com/> (visited August 20, 2002). These circumstances suggest that Freedom Motorcycles, like many of the companies involved in this case, is involved somehow with the Aquilini family.

harms favors the movant; and (4) that the public interest favors the movant. *Gelco Corp. v. Coniston Partners*, 811 F.2d 414, 418 n.4 (8th Cir. 1987); *Dataphase Sys., Inc. v. C L Sys., Inc.*, 640 F.2d 109, 113 (8th Cir. 1981). The party requesting injunctive relief bears the "complete burden" of proving all the factors listed above. *Gelco*, 811 F.2d at 418.

**B. Plaintiff's Allegations**

Plaintiff and defendants assert that Norton Motorcycles still owns the NORTON marks.[6] Non-party Global Coin disputes this, claiming to have taken the marks pursuant to its Writ of Execution from the second Hennepin County action.

Defendants argue that if Global Coin has obtained the marks, Norton Motorcycles was powerless to stop this involuntary transfer. Defendants maintain that plaintiff and Global Coin are simply two creditors seeking the assets of Norton Motorcycles, but that Global Coin "won the race" to obtain the NORTON marks. Plaintiff disputes that defendant "won the race," noting that he was the first to file a notice of transfer with the USPTO. Plaintiff further asserts that defendants are abusing judicial processes to evade this Court's judgment.

Plaintiff first argues that Global Coin controls defendant Norton Motorcycles, noting that Myron Calof and Roberto Aquilini are intimately involved in the management and operation of both companies. Plaintiff also contends that the second Hennepin County action, which ended in default judgment against Norton Acquisition and Norton

[6] Defendants have also asserted that any use by Freedom Motorcycles of the NORTON marks is unauthorized.

Motorcycles, was essentially a sham. Based on the evidence noted above, plaintiff argues that the suit was an attempt to transfer the NORTON marks from Norton Motorcycles, which was liable for judgment, to Global Coin, which was not. In this way the Aquilinis could shelter their assets – the NORTON marks – from their creditors and from the Court's judgment.

### C. *Dataphase* Factors

Plaintiff argues that if the Court does not enjoin transfers of the NORTON marks, he will suffer irreparable harm by initiating more lawsuits to secure the judgment he has already obtained in this Court. The Eighth Circuit has held that a party suffers irreparable harm when it is forced to re-litigate matters already determined by a court. *See Canady v. Allstate Ins. Co.*, 282 F.3d 1005, 1020 (8th Cir. 2002). In this case, plaintiff has already been through one trial because Norton Motors, the original judgment debtor, was emptied of its assets before plaintiff could collect. The Court finds that forcing plaintiff to continue chasing after his duly earned judgment would cause irreparable harm.

The second factor, likelihood of success on the merits, seems rather clear. The merits of this case have already been determined. Plaintiff earned a judgment of $634,720.39 against Norton Motors, and won a jury verdict that Norton Acquisition and Norton Motorcycles are liable for that sum. The only remaining questions are when and how plaintiff can collect his judgment. Therefore, the second factor favors plaintiff. As for the balance of harms, defendants assert that they possess the NORTON marks, and this dispute is simply a race between two creditors, plaintiff and Global Coin. If defendants truly have no preference between creditors, the Court does not see how they

are harmed if plaintiff collects his judgment. Therefore, the Court finds that the balance of harms favors plaintiff.

Finally, the public interest looms large in this case. There is an undeniable public interest in ensuring that judgments of the Court are enforced. The public is served when disputing parties feel secure in seeking redress before the courts, and trust that successful efforts will not be in vain. Likewise, the public is harmed when jury verdicts and court judgments can be evaded by smoke-and-mirror tactics. The Court's judgments of July 13, 2000 and February 7, 2002 are unequivocal. To permit continued evasion of these judgments would abuse the trust that the public rightfully places in judicial process. Therefore, this prong clearly favors injunction.

For these reasons, the Court finds that the plaintiff's motion for preliminary injunction must be granted. The Court accepts defendants' assertions that Norton Motorcycles still owns the NORTON trademarks, and will issue an injunction preventing defendants from transferring the NORTON trademarks or any interest in those marks pending further order of this Court.

## II. Equitable Lien / Judicial Sale

Plaintiff argues that in lieu of or in combination with an injunction, the Court may impose an equitable lien on the NORTON marks out of "general considerations of . . . right and justice." *Nachazel v. Mira Co.*, 466 N.W.2d 248, 253 (Iowa 1991). Plaintiff claims that without such a lien, defendants will be able to continue what appears to be an established pattern of moving the NORTON marks – defendants' only asset – from company to company to avoid this Court's judgment. Plaintiff also seeks an Order to

Show Cause, which would direct defendants to show why a judicial sale should not be held, selling the defendants' business assets, including their interest in the NORTON marks and associated goodwill.[7]

A court may place an equitable lien upon a trademark to secure a judgment. *Jacobs, Bell, & Baumol v. Curtis*, 556 A.2d 817, 818 (Sup. Ct. N.J. 1989); *Adams Apple Distrib. Co. v. Papeleras Reunidas, S.A.*, 773 F.2d 925, 931 (7th Cir. 1985). Defendants argue that an equitable lien is inappropriate. The authority they cite, however, while an established rule of law, is inapposite here. Defendants note the rule that a trademark cannot be sold or assigned "in gross," that is, apart from the business or goodwill with which the mark has been associated. *See Marshak v. Green*, 746 F.2d 927, 929 (2d Cir. 1984); *Jacobs, Bell, & Baumol*, 556 A.2d at 818 (citing *Marshak*); *Ward-Chandler Bldg. Co. v. Caldwell*, 47 P.2d 758, 760 (Calif. Ct. App. 1935).

Plaintiff, however, is not trying to sell the NORTON marks in gross. He merely seeks a remedy endorsed in *Jacobs* and in *Adams Apple* – an equitable lien upon the NORTON trademarks, followed by judicial sale of the marks **together with** the owner's tangible business assets or goodwill. *See Jacobs, Bell, & Baumol*, 556 A.2d at 818. Defendants' precise argument has been rejected by the Seventh Circuit, which held in *Adams Apple* that "a trademark is a form of property . . . , which exists **in connection with** the goodwill or tangible assets of a business," and may therefore be sold along with the business's other assets. *See* 773 F.2d at 931 (emphasis added) (citations omitted).

[7] The Court grants plaintiff's Motion to File a Reply Brief and Affidavit and his Motion to File Supplemental Affidavit of Donald W. Niles in relation to this motion.

The cases clearly establish this Court's power to impose an equitable lien, and the Court's research indicates nothing in Minnesota law to the contrary. *See id.*; *Adams Apple*, 773 F.2d at 931. *See also Bambu Sales, Inc. v. Sultana Crackers, Inc.*, 683 F. Supp. 899, 909 (E.D.N.Y. 1988) (holding that equitable lien on a trademark does not cloud title to the mark, but does create collection rights in a judgment creditor.)

Defendants make two further arguments against an equitable lien: that plaintiff is seeking to pick and choose parts of defendants' business, and that plaintiff cannot force a judicial sale because he does not plan to produce motorcycles. Both of these arguments are without merit. First, plaintiff is not seeking to "handpick" bits and pieces of Norton Motorcycles' business, as defendants allege. Rather, he seeks a lien upon the company's only remaining asset – the NORTON marks – and a sale of that asset combined with its goodwill. As discussed above, the Court can order such a remedy. Second, it is irrelevant that plaintiff does not seek to produce motorcycles. Nothing plaintiff seeks would cause consumer confusion or violate the Lanham Act. He merely seeks to satisfy his judgment by claiming the only asset that defendants have left.

Based on the facts of this case and the discussion above, the Court concludes that imposition of an equitable lien, combined with an injunction, are required for plaintiff to secure his judgment.[8] The Court is deeply concerned that defendants and their associates, through the creation of new entities, use of default judgments, and other transactions, are attempting to commit fraud upon this Court and upon the plaintiff by seeking to protect

[8] The Court finds that these are the appropriate remedies at this time. Therefore, Plaintiff's Motion for Order Appointing Receiver will be denied.

their assets while denying plaintiff his rightful judgment. Defendants may continue to advocate their positions through the appeals process, but they may not ignore this Court's judgment, and they certainly may not evade it. Counsel who assist defendants in evading the Court's judgment are warned that they will face sanctions imposed by this Court.

The Court will therefore order that an equitable lien be imposed upon the NORTON trademarks in favor of the plaintiff to secure his judgment in this case. The Court will defer ruling on the motion for judicial sale for sixty (60) days pending settlement negotiations between the parties.

## III. Defendant Norton Motorcycles' Motion to Stay Enforcement of Judgment / Motion for Judgment as a Matter of Law or New Trial

Defendant's motion is styled as a Motion to Stay Enforcement, and makes reference to a Motion for Judgment as a Matter of Law or New Trial. Defendant's brief does not argue the Motion to Stay, but does argue the latter motion. Because the Court now deals with that substantive motion, the question of a stay is moot. The Court will therefore construe this as a Motion for Judgment as a Matter of Law or New Trial

### A. Standard of Review

Judgment as a matter of law is appropriate "if there is insufficient evidence to support a verdict for the nonmoving party." *Weber v. Strippit, Inc.*, 186 F.3d 907, 912 (8th Cir. 1999). In analyzing defendant's motion, the Court must view all facts and resolve all factual conflicts in favor of the nonmoving party – here, the plaintiff – and must give that party the benefit of all reasonable inferences. *Id.* The jury's verdict must be affirmed unless, "viewing the evidence in the light most favorable to the prevailing

party, [the Court] conclude[s] that a reasonable jury could have not found for that party." *Stockmen's Livestock Market, Inc. v. Norwest Bank of Sioux City*, 135 F.3d 1236, 1240-41 (8th Cir. 1998). However, the nonmoving party is not entitled to "the benefit of unreasonable inferences, or those at war with the undisputed facts." *Heating & Air Specialists v. Jones*, 180 F.3d 923, 932 (8th Cir. 1999). Nor is a "mere scintilla" of evidence adequate to support a verdict. *Id.*

A district court has broad discretion in framing its instructions to the jury. *Ryther v. KARE 11*, 108 F.3d 832, 846 (8th Cir. 1997). In deciding a motion based upon allegedly faulty jury instructions, the Court must determine whether the instructions, taken as a whole, "fairly and adequately submitted the issues in the case to the jury." *Slathar v. Sather Trucking Corp.*, 78 F.3d 415, 418 (8th Cir. 1996) (quoting *Transport Ins. Co. v. Chrysler Corp.*, 71 F.3d 720, 723 (8th Cir. 1995)). The Court may reverse a judgment based upon jury instructions only if the instructions, viewed in their entirety, contain errors that affected the substantial rights of the parties. *Ryther*, 108 F.3d at 846. Instructions are not erroneous simply because they are technically imperfect or are not a model of clarity. *Id.*

The standard for granting a motion for new trial under Rule 59(a) of the Federal Rules of Civil Procedure is extremely high on the moving party. Specifically, a district court should grant a new trial only when the verdict is against the great weight of the evidence and is necessary to prevent a miscarriage of justice. *White v. Pence*, 961 F.2d 776, 780 (8th Cir. 1992). Any other standard "would destroy the role of the jury as the

principal trier of the facts, and would enable the trial judge to disregard the jury's verdict at will." *Id.*

**B. Analysis**

Defendant claims that plaintiff cannot, as a matter of law, prevail under the theory of successor liability. Defendant contends that the only reason the jury reached this verdict was because the Court erroneously instructed the jury on the "de facto merger" doctrine. Defendant argues that Minnesota law does not recognize this doctrine.

The question of de facto merger was raised on defendant's motion to dismiss during trial and during discussions over the jury instructions. At that time, the Court denied defendant's motion, which was based upon the same argument it makes here. Defendant correctly notes that the Minnesota Supreme Court has not addressed the question of de facto merger. This does not mean, however, that this Court was wrong to instruct the jury on that doctrine.

The Eighth Circuit has held that where neither the legislature nor the highest court in a state has addressed an issue, a federal court sitting in diversity must determine what the highest state court would probably hold were it called upon to decide the issue. *Gilstrap v. Amtrak*, 998 F.2d 559, 560 (8th Cir. 1993) (quoting *Hazen v. Pasley*, 768 F.2d 226, 228 (8th Cir. 1985)). In making this determination, the federal court "may consider relevant state precedents, analogous decisions, considered dicta, scholarly works, and any other reliable data tending convincingly to show how the highest court in the state would decide the issue at hand." *Id.* (quoting *Kifer v. Liberty Mutual Ins. Co.*, 777 F.2d 1325, 1329-30 (8th Cir. 1985) (internal quotation marks omitted)).

In denying plaintiff's motion to dismiss during trial, the Court considered several decisions of the Minnesota Court of Appeals and of the United States District Court for the District of Minnesota. These cases uniformly apply the doctrine of de facto merger as if it were law in Minnesota. *See Fine v. Schwinn Cycling Fitness, Inc.*, 2000 WL 1869552 at *3 (Minn. Ct. App. Dec. 26, 2000); *State v. Gopher Oil Co.*, 1995 WL 687688 at *3 (Minn. Ct. App. Nov. 21, 1995); *Soo Line Railroad Co. v. B. J. Carney Co.*, 797 F. Supp. 1472, 1483 (D. Minn. 1992); *Sylvester Bros. Development Co. v. Burlington No. Railroad*, 772 F. Supp. 443, 448 (D. Minn. 1990); *Anderson v. City of Minnetonka*, 1993 WL 95361 at *6 (D. Minn. Jan. 27, 1993). One case goes so far as to hold that the Minnesota Supreme Court's law on successor liability embodies the doctrine of de facto merger. *See T.H.S. Northstar Assoc. v. W.R. Grace & Co.-Conn.*, 840 F. Supp. 676, 678-79 (D. Minn. 1993) ("Although Minnesota has not expressly adopted the de facto merger doctrine, the second exception [to the traditional rule of no successor liability] necessarily incorporates that doctrine for the purpose of finding successor liability."). These authorities convince this Court that if the Minnesota Supreme Court were to consider the question of de facto merger, it would more than likely decide to adopt the doctrine. The Court therefore reaffirms its denial of defendant's motion to dismiss, and holds that the instruction on de facto merger (Instruction No. 16) accurately presented the law and was properly presented to the jury.

Defendant next argues that even if the de facto merger doctrine applies, plaintiff presented no evidence to support a verdict of successor liability, and the verdict must

therefore fail. Under Minnesota law, successor liability attaches to a corporation only if one of four circumstances exists:

1. The purchaser expressly or impliedly agrees to assume such debts;

2 The transaction amounts to a consolidation or merger of the corporation;

3. The purchasing corporation is merely a continuation of the selling corporation; and

4. The transaction is entered into fraudulently in order to escape liability for such debts.

*Niccum v. Hydra Tool Corp.*, 438 N.W.2d 96, 99 (Minn. 1989). Defendant argues that only one of these possible circumstances pertains to this case – consolidation or merger – and that plaintiff was unable to prove that it occurred.

The Court finds that plaintiff introduced sufficient evidence to support the jury's verdict on all four aspects of successor liability. First, evidence was presented that Norton Motorcycles agreed, as part of the April 9, 1999 asset transfer, to be "jointly and severally liable" for the assumed debts of Norton Acquisition. This is clear evidence of an agreement to assume debts.

Second, the Court finds that plaintiff introduced sufficient evidence of a consolidation or merger. The Court considers four factors to determine whether a transaction "amounts to a consolidation or merger," also known as a de facto merger:

1. Whether there is a continuation of the enterprise of the seller corporation so that there is a continuity of management, personnel, physical location, assets, and general business operation;

2. Whether there is a continuity of shareholders which results from the purchasing corporation paying for the acquired asset with shares of its own stock, this stock ultimately coming to be held by the

shareholders of the corporation so that they become a constituent part of the purchasing corporation;

3. Whether the seller corporation ceased its ordinary business operations, liquidated and dissolved as soon as legally and practically possible; and

4. Whether the purchasing corporation assumed the obligations of the seller corporation necessary for the continuation of normal business operations of the seller corporation.

*Sylvester Bros.*, 772 F. Supp. at 447-48. No one of these factors is dispositive, but there cannot be a de facto merger without "continuity of shareholders, accomplished by paying for the acquire corporation with shares of stock." *Anderson*, 1993 WL 95361 at *6 (citing *Sylvester Bros.*, 772 F. Supp. at 448).

Defendant argues that mere continuity of shareholders is not sufficient to find a de facto merger, claiming that the stock of the selling corporation must be held by the shareholders of the buying corporation.[9] Defendant claims that the *Sylvester Bros.* case "stands for the princip[le] that the stock must be actually owned by the same shareholders and not in the corporate name for there to be continuity." (Def. Mem. at 5.) This, however, mischaracterizes the holding of *Sylvester Bros.* In that case, the court rejected an argument that de facto merger can exist **without** continuity of shareholders. *Sylvester Bros.*, 772 F. Supp. at 448. The court emphasized that continuity of shareholders is necessary for the de facto merger exception. The cases support a conclusion that this

[9] Plaintiff contends that defendant is barred from making this argument, claiming that defendant never objected to the "continuity of shareholder" portion of the de facto merger instruction on these grounds. Upon reviewing the record of these arguments, the Court finds that defendant did in fact argue this point. Therefore, the Court rejects plaintiff's argument that the motion is barred.

alone is the key element of the "continuity" factor. *See T.H.S. Northstar*, 840 F. Supp. at 678 ("The key factor in distinguishing between a merger and an asset purchase is the . . . **continuity of shareholders resulting from an exchange of stock, rather than cash**, for assets." (Emphasis added.) *See also Anderson*, 1993 WL 95381 at *6 (stating that continuity of shareholders is "accomplished by paying for the acquired corporation with shares of stock."); *Soo Line*, 797 F. Supp. at 1483. Defendant concedes that the assets of Norton Motors were purchased primarily with shares of stock. *See* Def. Mem. at 4. Because this satisfies the key element in the "continuity of shareholders" factor, the Court holds that sufficient evidence supports a jury verdict on this point.

Third, at least one court has held that the mere continuation exception applies "when the new entity is simply a new hat for the seller." *Soo Line*, 797 F. Supp. at 1483 (internal quotation marks omitted). Defendant suggests that this exception must be confined to bankruptcy cases. Even if this exception applies "principally" to such cases, however, the Court finds no authority suggesting that the exception is inapplicable here. The Court's instruction on "mere continuation" (Instruction No. 17) is substantially the same as defendant's proposed jury instruction on this point. (*See* Def. Proposed Jury Instr. No. 14, p. 19.) The Court finds that its instruction fairly and adequately submitted the issue to the jury, and that defendant was not prejudiced by the Court's choice in wording. *See Cox v. Dubuque Bank & Trust Co.*, 163 F. 3d 492, 496-97 (8th Cir. 1998) (noting that failure to incorporate a proposed jury instruction will only be classified as abuse of discretion if that failure seriously impaired party's ability to present an effective case).

Fourth, the Court finds that plaintiff submitted sufficient evidence that the transaction was entered into fraudulently to escape liability for debts. Defendant argues that the verdict on this ground must fail, because defendant was not found to have engaged in a fraudulent conveyance. Defendant provides no authority for its assertion that the criteria for "entering a transaction fraudulently in order to escape liability for debts" is identical to the elements of fraudulent conveyance under Minn. Stat. § 513.44. Plaintiff did introduce evidence, through the testimony of Mr. Kilpatrick and Mr. Tastad, that the purpose of the asset transfers was to evade certain debts. The Court therefore finds that sufficient evidence exists to support the verdict on this point.

Of course, only one of the four circumstances must exist to support a finding of successor liability. Even if the plaintiff has not introduced sufficient evidence to support a verdict on a particular circumstance, the verdict must stand if sufficient evidence exists to support at least one of the circumstances. In this case, having viewed the evidence in the light most favorable to the plaintiff, the Court concludes that a reasonable jury could have found for the plaintiff, and that the jury's verdict was not against the great weight of the evidence. Therefore, the Court will deny plaintiff's Motion for Judgment as a Matter of Law or for New Trial.

## IV. Plaintiff's Motion for New Trial

Plaintiff seeks a new trial against defendant Myron Calof, claiming the Court erred by dismissing the fraudulent conveyance claim against Calof and by excluding certain evidence.

Before submitting the case to the jury, the Court held that plaintiff had not shown sufficient evidence to prove Calof liable under the Uniform Fraudulent Transfers Act ("UFTA"). *See* Minn. Stat. §§ 513.44, 513.48. Plaintiff argues that the Court should have let the jury determine whether Calof was liable for a fraudulent conveyance. Plaintiff claims he presented sufficient evidence of badges of fraud, and that there was at least a material question of fact as to Calof's liability. The Court disagrees.

Badges of fraud apply only to the "actual intent" element of UFTA. *See* Minn. Stat. § 513.44(b). Before the Court can use badges of fraud or circumstantial evidence to infer intent upon Calof, he must be a person subject to liability under the statute. Calof can only be liable under UFTA if he was the debtor, a transferee, or a "person for whose benefit the transfer was made." Minn. Stat. § 513.48(b). It is undisputed that Calof himself was not the debtor or a transferee. In dismissing the claim at trial, the Court also held that any indirect benefits Calof might have received from the April 1999 transfers were too remote to make the transfer "for his benefit."

Plaintiff cites several cases for the proposition that Calof's indirect benefits were sufficient to make him "a person for whose benefit the transfer was made." These cases, however, do not mandate such a result. In each of them, the individual held liable was either the sole or majority shareholder in the transferee company. *See New Horizon*, 570 N.W.2d at 13 (finding director liable when he arranged transfer of assets to company of which he was sole shareholder); *In re Ohio Corrugating Co.*, 70 B.R. 920, 923, 925 (N.D. Ohio 1987) (holding that transferee company's majority shareholder could be an individual "for whose benefit the transfer was made"); *Swanson v. Tomlinson Lumber*

*Mills, Inc.*, 239 N.W.2d 216, 217, 220-21 (Minn. 1976) (holding transaction invalid because owner of debtor company indirectly benefited by breaching his fiduciary duty to creditor company); *B&S Rigging & Erection, Inc. v. Wydella*, 353 N.W.2d 163, 165, 168 (Minn. Ct. App. 1984) (holding that individuals who together owned two-thirds of debtor company and 100% of creditor company breached fiduciary duty to other creditors by reducing debt owed creditor company to the detriment of other creditors). Here, it is undisputed that Calof owned no shares in any Norton company. Therefore, even giving UFTA a liberal construction, any indirect benefit Calof might have received from the April 1999 transactions was far more remote than the benefit in any of plaintiff's cases.

The chief evidence plaintiff uses to show that Calof benefited is the $200,000 loan that he took on behalf of Norton Acquisition in March 2000. This money apparently was used to pay fees to Calof, the Aquilinis, and the Duckson-Carlson law firm. Norton Acquisition defaulted on the loan, and lost its 85% share of Norton Motorcycles in satisfaction of the debt. At trial, the Court excluded evidence of this loan, finding that plaintiff had not included the loan in his Complaint, and that it was irrelevant to whether defendants were liable for transfers that occurred nearly one year earlier. The Court still does not find the loan relevant to the specific claims in this case. Moreover, plaintiff cannot raise the loan as "another fraudulent transfer by Calof," because it was not part of plaintiff's Complaint. The Court therefore concludes that it did not err by excluding evidence of the loan, nor by dismissing the fraudulent conveyance claim against Calof. Accordingly, plaintiff's motion for a new trial will be denied.

## V. Plaintiff's Motion for Recovery of Attorney's Fees

Plaintiff has moved for full recovery of attorneys' fees pursuant to the Repayment Agreement (the "Agreement"). The Agreement provides that Norton Motors will pay all costs of collection for plaintiff, including reasonable attorneys' fees. For these fees, plaintiff asks that an additional amount of $172,295.69 be added to his existing judgment of $634,720.39.

Attorneys' fees may not be awarded to a successful litigant without explicit statutory or contractual authorization. *Fownes v. Hubbard Broadcasting, Inc.*, 246 N.W.2d 700, 702 (Minn. 1976). Among factors to be considered in determining the reasonableness of attorneys' fees are "time and effort required, value of the interest involved, and results secured at trial." *Bloomington Elec. Co. v. Freeman's, Inc.*, 394 N.W.2d 605, 608 (Minn. Ct. App. 1986). Here, it is undisputed that the Agreement specifically provides that Norton Motors would "pay all costs of collection of [plaintiff], including reasonable attorneys' fees in case the Company shall default . . . under this Agreement . . . ." (*See* Pl. Trial Ex. 12.).

Defendants argue that plaintiff should not receive any attorneys' fees. First, defendants note that Calof was not a party to the repayment agreement, and that the billing records do not segregate the costs related to Calof. Defendants therefore argue that all costs related to Calof should be excluded. Second, defendants argue that the majority of the time and evidence at trial was related to the partially successful fraudulent conveyance claims. Defendants contend that because plaintiff did not segregate these costs, to grant plaintiff the full amount would allow him to be unjustly enriched for

prevailing on the successor liability issue. Third, defendants argue that the billing rates and charges are unreasonable for the type of work performed.

The Court rejects defendants' arguments. First, the facts of this case clearly show that Myron Calof was intimately involved in many aspects of all the Norton companies and in other Aquilini ventures. Just as Calof was intertwined with the many transactions in this case, fees related to Calof are intertwined with all the legal issues in the case. The Court is mindful, however, that the fraudulent conveyance claim against Calof was dismissed, and the jury found him not liable on the fraud by misrepresentation claim. Plaintiff has provided a detailed list of his attorneys' expenses, from which it is possible to discern what costs were clearly associated with the two claims against Calof as an individual. In accordance with the results at trial, the Court finds it appropriate to exclude costs clearly associated with these claims.[10] (*See* Niles Aff. Ex. B.) Accordingly, the Court will reduce plaintiff's attorney fee award by $2,795.50.

[10] These items are:

| Date | Description | Fee | Niles Aff. Ex. B Page |
|---|---|---|---|
| 07/24/01 | Legal research re individual liability of Calof; draft elements outline for Minnesota State fraudulent conveyance liability; apply facts to case elements. | $877.50 | 1 |
| 09/27/01 | Draft correspondence to Magistrate Noel re sanctions against Calof. | $318.00 | 3 |
| 11/30/01 | Research and review case law regarding fraud with similar or analogous facts; draft fraud legal standard section of Plaintiff's statement of case; continue drafting proposed jury instructions. | $775.00 | 7 |
| 12/04/01 | Conduct research on fraudulent misrepresentation; draft addition to statement of case regarding fraudulent misrepresentation; pulled statute and case law regarding equitable dissolution. | $550.00 | 7 |
| 12/06/01 | Researched the "inducement element" of fraud; begin drafting jury instruction for inducement. | $275.00 | 8 |
| | **TOTAL EXCLUDED FEES:** | $2,795.50 | |

Second, the Court does not find that plaintiff will be "unjustly enriched" by collecting attorneys' fees. Plaintiff not only prevailed completely on the issue of successor liability, but he also prevailed on his fraudulent conveyance claim against Norton Acquisition. The Court can discern no expenses specifically related to the unsuccessful fraudulent conveyance against Norton Motorcycles, and the evidence on these claims frequently overlapped. Therefore, the Court finds it appropriate to award attorneys' fees for the work done on the fraudulent conveyance and successor liability claims. Finally, the Court finds that the rates and charges are reasonable and appropriate given the nature of this case and the work performed.

The Court finds that all the conditions of the Repayment Agreement relating to payment of attorneys' fees have been met, and that the additional costs of collection and attorneys' fees were reasonably and necessarily incurred by plaintiff. Accordingly, the Court will award plaintiff attorneys' fees in the amount of $169,500.19.

**ORDER**

Based on the foregoing, all the records, files, and proceedings herein, **IT IS HEREBY ORDERED** that:

1. A preliminary injunction is hereby entered against the defendants in this case: Norton Motors International, Inc.; Norton Motorcycles, Inc., f/k/a Hallmark Properties, Inc.; Norton Acquisition Corp.; and Myron Calof, as follows: Defendants, their officers, agents, servants, employees, attorneys, and those persons in active concert or participation with them are prohibited from effectuating any transfer of the United States trademark registrations and applications listed in Footnote No. 3 of the Opinion

accompanying this Order, or any interest in such trademark registrations and applications, pending further order of this Court.

2. In accordance with Rule 65(c) of the Federal Rules of Civil Procedure, plaintiff shall post a bond with the Clerk in the amount of ten thousand dollars ($10,000) for the payment of such costs and damages as may be incurred or suffered by defendant in the event defendants are found to have been wrongfully enjoined or restrained.

**IT IS FURTHER ORDERED THAT:**

3. Plaintiff's Motion to File Reply Brief and Affidavit [Docket No. 136] is **GRANTED**.

4. Plaintiff's Motion for Leave to file Supplemental Affidavit of Donald W. Niles [Docket No. 138] is **GRANTED**.

5. Plaintiff's Motion for Order for Equitable Lien [Docket No. 122-1] is **GRANTED as follows**:

a. An equitable lien in favor of Plaintiff Robert Cieslukowski is ordered and imposed upon the United States trademark registrations and applications listed in Footnote No. 3 of the Opinion accompanying this Order.

b. Plaintiff may file a copy of this order with the United States Patent and Trademark Office.

6. Plaintiff's Motion for Order Appointing Receiver [Docket No. 122-3] is **DENIED**.

7. Defendant Norton Motors International's Motion to Stay Judgment / Motion for Judgment as a Matter of Law or New Trial [Docket No. 131] is **DENIED**.

8. Plaintiff's Motion for New Trial [Docket No. 128] is **DENIED**.

9. Plaintiff's Motion for Attorneys' Fees [Docket No. 125] is **GRANTED as follows.** Plaintiff is awarded $169,500.19 for costs of collection and attorneys' fees, to be added to the July 13, 2000 judgment against Defendant Norton Motors International, Inc., and to the February 7, 2002 judgment against Norton Acquisition Corporation and Norton Motorcycles, Inc.

DATED: September 10, 2002
at Minneapolis, Minnesota.

JOHN R. TUNHEIM
United States District Judge