

UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF NEW YORK

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IN RE:

COLCHESTER HOLDINGS, INC.

Debtor

CASE NO. 03-60642

Chapter 11

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COLCHESTER HOLDINGS, INC.

Plaintiff

vs.

ADV. PRO. NO. 03-80341

SPORTSEdge

Defendant

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APPEARANCES:

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Hon. Stephen D. Gerling, Chief U.S. Bankruptcy Judge

**MEMORANDUM-DECISION, FINDINGS OF FACT,  
CONCLUSIONS OF LAW AND ORDER**

Presently before the Court is a motion filed on behalf of Colchester Holdings, Inc. (“Debtor” or “Plaintiff”) by way of an Order to Show Cause and Temporary Restraining Order, signed on August 20, 2003, seeking a preliminary injunction in the context of an adversary

proceeding commenced by the Debtor on August 19, 2003. Debtor seeks to permanently enjoin SportsEdge (“SportsEdge” or “Defendant”) from

- a) using or disseminating any of the designs or information described in Exhibit “A” [of the Complaint];
- b) using any information in connection with Defendant’s business or products that infringes on Plaintiff’s rights in and to the documents described in Exhibit “A” or using any information that is confusingly similar to any of the elements of Plaintiff’s unique and distinctive property;
- c) engaging in any other conduct that will cause, or is likely to cause customer confusion, mistake, or deception as to the affiliation, connection, association or origin, sponsorship, or approval by plaintiff of Defendant’s use of any information described in or derived from that described in Exhibit “A” or otherwise infringing upon or using the Plaintiffs [*sic*] Property as described in Exhibit “A,” and
- d) selling any product described in Exhibit “A” or partially described in Exhibit “A.”

Order to Show Cause at ¶ 1.

On August 28, 2003, SportsEdge filed opposition to the Debtor’s motion. The motion was heard at the Court’s regular motion term in Binghamton, New York, that same day. Following oral argument, the Court indicated that it was modifying the terms of the temporary restraining order, as set forth in the Order to Show Cause, pending an evidentiary hearing. Specifically, it indicated that it would not enjoin SportsEdge from “[s]elling or distributing any product that was prepared from, designed from or substantially resembles the items described in Exhibit ‘A’.”<sup>1</sup>

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<sup>1</sup> At the hearing on September 4, 2003, the Court made note that although it had granted Debtor’s motion for a continuation of a temporary restraining order, as modified on the record of the hearing on August 28, 2003, no written order had been submitted to the Court. At the close of the testimony on September 4, 2003, as well as on November 17, 2003, the Court indicated that it was going to continue the temporary restraining order, as modified on August 28, 2003, pending its ultimate decision.

An evidentiary hearing was commenced on September 4, 2003, at Utica, New York, and continued on November 17, 2003. Following the testimony of several witnesses, the Court afforded both parties the opportunity to submit memoranda of law. The deadline for such submissions was originally set for December 31, 2003; however, due to the delay in obtaining copies of the transcripts of the hearings,<sup>2</sup> the matter was ultimately submitted for decision on February 9, 2004.

### **JURISDICTIONAL STATEMENT**

The Court has core jurisdiction over the parties and subject matter of this particular aspect of the adversary proceeding pursuant to 28 U.S.C. §§ 1334, 157(a), (b)(1) and (b)(2)(A) and (O).

### **FACTS**

The Debtor operates a steel fabricating facility in Downsville, New York. Thomas Jenkusky (“T. Jenkusky”), the president of the Debtor, testified that the Debtor generally does not market its finished products on a retail basis. *See* Tr. I at 25. Instead, it sells wholesale to a few entities. *Id.* This includes the sale of trailers. *Id.*

SportsEdge<sup>3</sup> is in the business of designing, distributing and selling athletic field

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<sup>2</sup> For purposes of this decision, the Court will refer to the transcript of the hearing on September 4, 2003, as “Tr. I” and the transcript of the hearing held on November 17, 2003, as “Tr. II.”

<sup>3</sup> Sports Field Specialties, Inc. was incorporated in early 1998. SportsEdge is the registered entity doing business in New York. *See* Tr. II at 12.

equipment. SportsEdge has products manufactured for it by companies such as the Debtor and then markets and sells the items to its customers, which includes numerous colleges and high schools. *See* Tr. II at 59. T. Jenkusky testified that he was approached by James Koczko (“Koczko”), the president of the newly formed company, SportsEdge, in the late summer of 1998 about collaborating in the development of new SportsEdge products, including a long jump pit and a steeplechase water jump pit. *See* Tr. I at 8. According to the testimony of Malcolm MacNaught (“MacNaught”), an engineer employed by the “Clark Companies,”<sup>4</sup> the pits had previously been constructed using wood forms in which concrete was poured. This was a lengthy process and he and others at Clark Companies had come up with the idea to use aluminum as a form. Tr. I at 80.

MacNaught testified that when he first met with T. Jenkusky, T. Jenkusky expressed concerns to him about the monies that would be needed for research and development of a new product line. Tr. I at 87. According to MacNaught, Clark Companies initially provided the monies to purchase the needed aluminum in sufficient quantities that allowed the Debtor to get a lower price than it would otherwise have been able to had it bought on an as needed basis. Tr. I at 137.

MacNaught provided the Debtor with sketches and notes of the designs for the products as he had envisioned them based on his expertise in the field over a number of years. *See* Tr. I at 96 and Defendant’s Exhibit 3. Through a trial and error process, “dimensions were changed, parts were modified [and] holes were moved.” Tr. I at 34. According to Mark Jenkusky (“M.

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<sup>4</sup> According to the memorandum of law submitted on behalf of SportsEdge, the actual name of the company allegedly is Burton F. Clark, Inc. *See* Defendant’s Post-Hearing Memorandum of Law, filed February 3, 2004, at 4. There was testimony to the effect that “Mr. Clark” is the primary shareholder of Sports Field Specialties, Inc. *See* Tr. II at 23.

Jenkusky”), who did drafting work for the Debtor, changes were incorporated based on input from his father, T. Jenkusky, from the welders and from the men who worked in the Debtor’s shop, as well as from the crews doing the installation in the field. Tr. I at 35. These collaborative efforts ultimately resulted in the creation of “process drawings” by M. Jenkusky which, according to his testimony, contained everything needed for manufacturing the finished products. *See* Debtor’s Exhibits 6-9.

On cross-examination, M. Jenkusky indicated that he had actually taken MacNaught’s drawings and broken them down into individual parts from which he then made drawings for purposes of fabrication. When the various parts were then welded together, additional drawings were made by him of the final assembly or subassembly. Tr. I at 51. It was the assembly drawings, rather than the individual part drawings, which were later provided by the Debtor to SportsEdge in electronic format to be used for marketing purposes on its web site.<sup>5</sup> Tr. I at 40 and Tr. II at 17-18.

T. Jenkusky testified that in 2001 and 2002 its orders for the products from SportsEdge totaled approximately \$450,000 each year. Tr. I at 15. According to T. Jenkusky, this represented approximately 18-20% of its business for each of the two years. *Id.* It was his testimony that in December 2002 he was informed by Wayne Oliver (“Oliver”), who assumed the presidency of SportsEdge in January 2002, that SportsEdge would be putting the products

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<sup>5</sup> Of 183 drawings attached to the Debtor’s motion as Exhibit “A,” SportsEdge located 24 drawings in its computer. SportsEdge also located 30 other drawings in its computer that were not part of the 183 drawings. Of the 54 drawings in the possession of SportsEdge, 38 had a legend indicating “This drawing is the exclusive property of Colchester Holdings Inc. No right or license is given or waived by supplying this drawing. . . . neither the drawing nor its contents is to be used, transferred, traced or otherwise reproduced without prior & expressed written consent of Colchester Holdings, Inc. Copyright protected by Colchester Holdings, Inc., 324 Corbett Rd., Downsville, N.Y. 13755 U.S.A.” Debtor’s Exhibit 12 and Tr. II at 40.

previously manufactured exclusively by the Debtor out for bid. Tr. I at 21.

Oliver testified that he viewed the relationship with the Debtor as a “purchase order relationship” whereby SportsEdge would issue a purchase order for parts and the Debtor would fabricate them and deliver them to SportsEdge’s warehouse for shipment. Tr. II at 65. According to Oliver, he had been trained always to have a second source of supply available in case of an emergency. Tr. II at 69. Oliver explained that at the end of 2002 or early 2003 SportsEdge sought and received quotations not only from the Debtor, but also from Northeast Fabricators, LLC (“Northeast”), a metal fabricator business in Walton, New York.

William Brodeur (“Brodeur”), who operates Northeast, acknowledged that at some point SportsEdge became one of its customers. After having spoken to Scott Clark, the alleged vice president of SportsEdge (Tr. I at 22), on an unrelated matter, Brodeur testified that he had been told that SportsEdge was considering working with a second metal fabricator for some of its sports products. Tr. II at 50. According to Brodeur, he later met with Koczko, who explained that because of the growth of SportsEdge’s business, there were concerns about whether or not the Debtor would be able to handle the increased demand. Tr. II at 51.

It was Brodeur’s testimony that most of Northeast’s business is fabricating parts to customers’ specifications. Tr. II at 44. The company also has its own product line of conveyor systems. He explained that, while the company generally takes customer prints and breaks them down into component parts to manufacture, it also is able to do “reverse engineering.”<sup>6</sup> Tr. II at 46.

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<sup>6</sup> “Reverse engineering is the process by which an engineer takes an already existing product and works backwards to re-create its design and/or manufacturing process.” *United Technologies Corp. v. Federal Aviation Administration*, 102 F.3d 688, 690 n.1 (2d Cir. 1996)

Brodeur testified that he was not provided with any of the Debtor's drawings of the pits for the long jump and the steeplechase water jump and, instead, he was asked to reverse engineer the parts for them. Tr. II at 52. Ultimately, Northeast developed its own set of drawings for the products, which it provided to SportsEdge. Tr. II at 53-54. It was Brodeur's testimony that as far as he was concerned, "it wasn't a Northeast product." Tr. II at 54. He did acknowledge that Northeast had made an investment of time and effort in developing the products and, if the two companies ceased doing business, he anticipated receiving reimbursement for Northeast's time and effort based on discussions he had had with Oliver. Tr. II at 54-55.

On February 5, 2003, the Debtor filed a voluntary petition pursuant to chapter 11 of the Code. As noted previously, the Debtor filed a complaint with the Court on August 19, 2003, naming SportsEdge as a defendant. On February 25, 2004, subsequent to the two hearings on the Debtor's present motion seeking injunctive relief, the Debtor filed an amended complaint. In that complaint, the Debtor seeks damages based on breach of contract, conversion, unfair competition, and intentional interference with contractual relations, in addition to injunctive relief. Debtor also requests a jury trial.<sup>7</sup>

## DISCUSSION

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<sup>7</sup> The causes of action identified in the Debtor's amended complaint do not involve "core" proceedings. See *Aarismaa v. Jordan (In re Aarismaa)*, Case No. 98-60266, Adv. Pro. 98-70884 and 98-70875, slip op. at 15-16 (Bankr. N.D.N.Y. Feb. 4, 1999). They do appear related to the bankruptcy case, however, in that the outcome of the litigation may have a conceivable effect on the the case. See *In re Cuyahoga Equip. Corp.*, 980 F.2d 110 (2d Cir. 1992). Pursuant to 28 U.S.C. § 157(c)(1), the Court is limited to submitting proposed findings of fact and conclusions of law to the district court. However, because the Debtor has requested a jury trial, this Court is without jurisdiction to conduct such a trial, assuming that the Debtor has a right to a jury trial, unless it has the consent of both parties. See *In re Eagle Enterprises, Inc.*, 259 B.R. 83, 88 (Bankr. E.D. Pa. 2001), citing 28 U.S.C. § 157(e).

A party seeking a preliminary injunction must show: (1) irreparable harm in the absence of the injunction, and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the movant's favor.

*Random House, Inc. v. Rosetta Books, LLC*, 283 F.3d 490, 491 (2d Cir. 2002).

“Preliminary injunctions are generally granted under the theory that there is an urgent need for speedy action to protect the plaintiff's rights. Delay in seeking enforcement of those rights, however, tends to indicate at least a reduced need for such drastic speedy action.” *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir. 1985). Thus, in assessing irreparable harm, courts generally consider negatively any delay in seeking a preliminary injunction. *See Guinness United Distillers & Vintners, B.V. v. Anheuser-Busch, Inc.*, No. 02 Civ. 0861, 2002 WL 1543817, at \*6 (S.D.N.Y. July 12, 2002), citing *Tom Doherty Assocs. Inc. v. Saban Entm't, Inc.*, 60 F.3d 27, 39 (2d Cir. 1995).

In this case, T. Jenkusky testified that in December 2002 he learned that SportsEdge intended to put the products out for bid. The Debtor filed its bankruptcy petition on February 5, 2003, and delayed in commencing an adversary proceeding against SportsEdge until August 19, 2003. It was on August 20, 2003, that it first filed its motion seeking a preliminary injunction. This represents a six month delay in seeking to enjoin SportsEdge from taking actions which it alleges are causing irreparable harm to its business. This delay certainly warrants consideration by the Court in determining irreparable harm. However, the Court also believes it appropriate to examine the nature of the irreparable harm asserted by the Debtor.

It is the Debtor's position that SportsEdge's alleged misappropriation of trade secrets constitutes irreparable harm, citing to *FMC Corp. v. Taiwan Tainan Giant Indus. Co., Ltd.*, 730 F.2d 61 (2d Cir. 1984). *See* Debtor's Post-Hearing Memorandum of Law at Point V. The

problem with this argument is that even if the process drawings created by the Debtor constituted confidential trade secrets, there is no evidence that SportsEdge improperly obtained them and used them for the development of the pits. Brodeur testified that his company was able to manufacture the products by application of reverse engineering. “[T]rade secret law . . . does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.” *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974); *see also Van Products Co. v. General Welding & Fabricating Co.*, 213 A.2d 769, 779 (Pa. 1965) (noting that there is no trade secret if, “at the time of disclosure or use by a misappropriator, the allegedly secret information could have been ascertained by inspection of sold articles or by reverse engineering”).

In *Drill Parts & Service Co., Inc. v. Joy Mfg. Co.*, 439 So. 2d 43 (Ala. 1983), *superseded in part by* Ala. Code 1975, § 8-27-1 *et seq.*, a drill manufacturer brought suit against a parts company and its president, alleging that plaintiff’s design technology had been improperly obtained and used by the parts company and requesting that the trial court enjoin defendants from further use of engineering drawings. *Id.* at 47. The lower court found the drawings were “confidential trade secrets and proprietary items” and enjoined the defendants from using them. *Id.* The appellate court affirmed, concluding that the defendants were prohibited from using the engineering drawings which had been improperly obtained. However, the court noted that they were free “to use any other proper means for determination of tolerances, measurements, etc. necessary for the manufacture of replacement parts. This would include ‘reverse engineering,’ use of patents which have expired, and the use of engineering drawings properly obtained, such

as by purchase, or by procuring drawings already in the public domain.” *Id.* at 50; *see also New York Spool Corp. v. Industrial Paper Tube, Inc.*, 160 A.D.2d 194 (N.Y. App. Div. 1990). The court in *New York Spool* noted that a number of courts had found that various manufacturing processes at issue were trade secrets which could have been permissibly duplicated through independent analysis. *Id.* at 195. As pointed out by the court in *New York Spool*, in those cases, although the analysis leading to reverse engineering was theoretically possible, it had never been undertaken by any of the defendants. *Id.* This was distinguishable from the facts in *New York Spool* in which the court found that the reverse engineering analysis had actually taken place and the process “was actually in use by a number of similar manufacturers.” *Id.*

The Debtor herein offered no proof that SportsEdge had provided any of the Debtor’s process drawings to Northeast. Indeed, it would appear that in order to manufacture the pits, some 183 drawings would have been necessary to complete the manufacturing process. Yet, there was testimony that SportsEdge was only in possession of approximately 24 assembly drawings, rather than parts drawings. These drawings were not improperly obtained by SportsEdge, having been given to it by the Debtor for incorporation into cut drawings used in connection with SportsEdge’s web site. As noted above, there was also testimony by Brodeur that his staff had created their own process drawings in the manufacture of the products.

Therefore, the Court concludes that the Debtor has failed to meet its burden of demonstrating irreparable harm. Accordingly, the Court need not consider the likelihood of success on the merits of its complaint or whether there are serious questions going to the merits of its complaint.

Based on the foregoing, it is hereby

ORDERED that the Debtor’s motion seeking a preliminary injunction is denied, and it

is further

ORDERED that the adversary proceeding shall be scheduled for a pre-trial conference before this Court on April 27, 2004, at 2:00 p.m. in Utica, New York.

Dated at Utica, New York

this 1st day of April 2004

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STEPHEN D. GERLING  
Chief U.S. Bankruptcy Judge