

June 2009

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Hunton & Williams' Litigators Win Award of Competitor's Product, Jackpot of IP, and Attorneys' Fees in Hotly-Contested Shelving Case

Design Assistance Construction Systems, Inc. ("DACs"), a leader in the highly-specialized archival storage industry, sued former Director David Cross; his son, Jordan Cross; and Sierra Shelving, Inc. The suit was related to David Cross' acceptance of an approximate \$2 million buyout at DACs, and his subsequent partnership with his son to compete against DACs.

DACS won summary judgment on its breach of contract claim but the defendants defeated DACs's other claims. As a remedy for the breach of contract, DACs was awarded substantial equitable relief, including an award of the defendants' patents, patent applications and Sierra Shelving's competitive product the "Snap Shelf." DACs also won \$450,000 in attorneys' fees and costs from David Cross.

After Cross and Sierra Shelving lost their appeals, the trial court resolved all remaining issues between the parties on May 28, 2009 by ordering a five-year non-compete against the defendants and the transfer of certain additional assets. **Hunton & Williams** is pleased that it was able to help our client preclude Sierra Shelving and the Crosses from improperly competing with DACs. The wide-ranging relief **Hunton & Williams** was able to obtain for our client includes the rights to Sierra

Shelving's entire patent portfolio and highly profitable 'Snap Shelf' product.

DACS, the Punch Deck Product and the Buy-Out

Portsmouth, Virginia-based DACs was founded in 1987 by Jack Henning and David Cross. DACs manufactures and sells steel products including the "Punch Deck," a specialized-shelving product that has become the archival storage industry leader. The revolutionary Punch Deck product was co-invented by Mr. Henning and Mr. Cross in 2002. Among the Punch Deck's benefits, the open design of the shelving provides fire protection and allows users to forgo installing additional expensive fire sprinkler systems. The Punch Deck enables large-scale document storage facilities to safely and economically store warehouses of documents for the medical, legal and other industries.

Mr. Henning was the President of DACs and managed the company's day-to-day affairs. Mr. Cross was a Director and shareholder at DACs, but by 2002, was living in semiretirement in Mexico. In 2003, Mr. Cross decided he wanted to be bought out of DACs. The parties negotiated a stock purchase agreement ("SPA"), signed on October 7, 2003, whereby Mr. Henning agreed to buy

out Cross and Cross's nephew for \$3 million. In consideration for the buyout, Cross agreed to a noncompete and to turn over any intellectual property-related materials that he might have.

The Defendants' Breach of the Stock Purchase Agreement

Unknown to DACS and Henning, David Cross had secretly applied for a patent on a "storage surface assembly" product on June 13, 2003, while still a Director and shareholder of DACS. The

When he left DACS, Cross accepted his portion of the \$3 million buyout without advising the company or company personnel of his secret patent application. In addition, Cross did not turn over any intellectual property to DACS, such as the patent application and associated drawings.

During 2004, David Cross and his adult son, Jordan Cross, who had no background in the archival shelving industry, prototyped and tested David Cross's

Sierra Shelving directly targeted DACS's archival storage market share, solicited DACS's largest customers and before long was making sales worth millions of dollars to DACS's Punch Deck customers. It was DACS's position that the Snap Shelf was the product that David Cross invented with other DACS employees while a Director and shareholder of DACS.

DACS's Lawsuit Against David Cross, Jordan Cross and Sierra Shelving

DACS retained **Bob Tata** and **Wendy McGraw** of **Hunton & Williams** LLP to sue David Cross, Jordan Cross and Sierra Shelving, seeking appropriate relief. Associate **Georgianna Ramsey** also joined the **Hunton & Williams** trial team. The claims included breach of the SPA and related torts. DACS sought damages and equitable relief, including the patent application that David Cross had secreted away from DACS, all related patents or patent applications, and the Snap Shelf product itself.

The Cross's and Sierra Shelving adamantly asserted that Jordan Cross was the sole owner of Sierra Shelving, and that David Cross had no involvement with Sierra Shelving or the Snap Shelf. In other words, the defense claimed that Jordan Cross, the former Capitol Hill policy analyst, had independently invented the Snap Shelf to compete in the specialized-shelving industry.

During the course of discovery, there initially appeared to be few documents that would illustrate David Cross's participation in his son's new business, if any. Jordan Cross claimed his computer had been stolen, and David Cross claimed he did not have or frequently use a computer. DACS eventually obtained an order requiring the production and



patent application related to an open-area shelf — originally conceived of with others at DACS, but tabled — that had been refined by David Cross. Cross' product was created to compete with DACS's flagship Punch Deck product, in DACS's core market, the archival storage industry. Cross's invention related to an innovative "cross bar technology," a series of steel cross bars that make up the shelving units.

shelving system. In 2005, Jordan Cross launched Sierra Shelving, Inc. The company's webpage advertised its "patent pending Snap Shelf technology" product, developed by the company's "engineers." Sierra Shelving's Snap Shelf was priced more favorably than DACS's Punch Deck — in part because it used less steel — a benefit that was touted on Sierra Shelving's website.

restoration of the hard drive of what was supposedly David Cross's wife's computer. The restored hard drive of the computer revealed numerous emails between David and Jordan Cross discussing their work, the Snap Shelf and Sierra Shelving.

Among the information found on the computer was an email written by Jordan Cross stating that his father "deserves a big piece of the profits because he invented the idea and filed for a patent." Jordan Cross also wrote that he and his father "worked on the concept for a full year, including samples made in Mexico, testing down in Mexico, and a lot of time improving the product." Still, Jordan and David Cross maintained the position that they were not working together in competition with DACS. The value of evidence recovered from non-traditional sources — such as David Cross's wife's restored hard drive — cannot be overstated. Despite the defendant's continued denials, the electronic data recovered by **Hunton & Williams** clearly illustrated David Cross's conspiracy and breach.

The Trial Court's Rulings and the Jury's Verdict

Following a two-week trial in Virginia Beach Circuit Court in February 2008, DACS moved for summary judgment on its breach of contract claim. Presiding Judge Thomas Padrick granted summary judgment to DACS, finding that David Cross had breached the SPA. Judge Padrick reserved ruling on the requested equitable relief and made additional rulings on the matter. He then allowed the remaining counts to go to the jury, which found against DACS.

The jury foreman later explained that while the majority of the jury was initially

resolved to award significant damages to DACS, one juror "remained an adamant holdout insisting that by virtue of the Judge's rulings DACS had already won enough money and relief because it was going to be able to shut down

... the rest of the jury relented and agreed to award DACS no damages."

Following the trial, the court had to determine the appropriate equitable relief and attorneys' fees that should be awarded to DACS. DACS argued

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- Less expensive



Sierra Shelving." Then, based on the jurors' understanding that DACS "was getting its attorneys' fees" and "was going to get all the intellectual property and Sierra would be out of business

that it should be entitled to the original patent application filed by David Cross while he was at DACS — which by then had matured into a patent — and all related patent applications and patents, of which by now there were several,

owned by David Cross and one or more partially owned by Jordan Cross.

In addition, DACS sought all products related to the patents, including the Snap Shelf, since they had a genesis at DACS. David Cross argued against the award of any equitable relief, taking the position that by ruling against DACS on the other counts, the jury had vindicated him. Jordan Cross and Sierra Shelving also argued against equitable relief, contending that since DACS had not prevailed against them on any count, the court could not reach the intellectual property and Snap Shelf that were in Jordan Cross's or Sierra Shelving's name. The defendants also argued that the Virginia Circuit Court did not have the jurisdiction to make certain equitable rulings regarding patents.

The court considered the parties' arguments but on April 8, 2008, entered its "Permanent Injunction and Other Equitable Relief" order. This Equity Order ruled that all patents, patent applications and "related products" were DACS's property. The Equity Order further ordered that the defendants must "execute all appropriate documents to assign and record DACS's ownership of the intellectual property with the United States Patent and Trademark Office within ten (10) days of this Order." Also, the defendants' intellectual

property counsel was ordered to turn over "all files related to the foregoing patent applications and patents to DACS ... so that DACS may ensure the proper continued prosecution and maintenance of its intellectual property."

DACS also sought to recover attorneys' fees and costs by virtue of prevailing on the breach of contract count. On the same day the Equity Order was entered, the court also ordered David Cross to pay DACS \$450,000 in attorneys' fees and costs.

The Appellate Process, Post Appeal Rulings and Final Resolution

Following the trial court proceedings, the parties appealed to the Supreme Court of Virginia, with the defendants seeking and obtaining a stay of the equitable relief. On May 20, 2008, the trial court ordered that the defendants post a \$1.8 million bond to support the stay, which the defendants refused to do. Ultimately, all appeals were denied; on February 6, 2009, the motions for rehearing were denied and the stay was lifted. As a result, DACS's substantial equitable relief and the \$450,000 award stood.

Following the resolution of the appeals, DACS filed additional motions with the trial court, seeking damages incurred as

a result of Sierra Shelving's competition during the pendency of the appeal and the defendants' violations of the court's various orders. DACS also sought an award of another approximately \$200,000 in attorneys' fees and costs. At a hearing on May 28, 2009, the parties presented and the court entered an agreed "Order Affording DACS Post-Trial Relief" finally resolving all remaining issues between the parties.

The Post Trial Relief Order provided in part that the defendants shall not compete with DACS for five years; that DACS may market and sell Sierra Shelving's former product, the Snap Shelf; and that the defendants must assign assets to DACS, including intellectual property; "all right, title and interest in the 'Snap Shelf' product and all 'related products,'" certain valuable equipment; and certain of the defendants' legal files.

Accordingly, three years of litigation between the parties concluded, with DACS winning the rights to the defendants' patents, patent applications, Snap Shelf product, a five-year noncompete, \$140,000 which is to be escrowed and returned to the defendants upon five years of compliance with the noncompete and other court orders and an additional confidential settlement amount.