

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
ALEXANDRIA DIVISION**

MYA SARAY, LLC,

Plaintiff,

v.

AL-AMIR, INC.,

&

ALI HAMMOUD,

Defendants.

Civil Action No. 1:10-cv-789

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**BRIEF IN SUPPORT OF MOTION TO IMPOSE SANCTIONS  
UNDER FED. R. CIV. P. 37(b)**

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## **INTRODUCTION AND FACTUAL BACKGROUND**

When Defendants ignored the first Order to Compel, this Court warned them that if by April 8, 2011 they failed either to obtain counsel for Al-Amir, Inc. (“Al-Amir”) or tender full and complete responses to discovery originally due in mid-February (and earlier), then this Court would sanction Defendants. Ct. Doc. No. 105. On April 8, 2011 no counsel appeared for Al-Amir and received no supplemented discovery responses were provided. Al-Amir’s recent conduct is merely the latest issue in a long line of litigation misconduct.

Al-Amir, and co-defendant Ali Hammoud (“Hammoud”) (collectively, “Defendants”), have already defaulted once in this litigation. Ct. Doc. No. 14. Hammoud, upon the process server’s entry into his distribution facility, indicated to the process server that he, Hammoud, was not available that day. *See* Ct. Doc. 40, generally. When the process server returned, the facility sign had been mangled from “Al-miar” to read “-Amir” and a man inside, Jafar, indicated that Al-Amir no longer existed; that he, Jafar, now owner the company “Amir,” which he had purchased from Hammoud and did not know of Hammoud’s whereabouts. *Id.* Upon being served, Jafar chased the process servers across a busy street in an attempt to return the service papers. *Id.* Citing ignorance of Jafar, the Defendants earnestly appealed to this Court to set aside default stating a desire to participate in this litigation on the merits. *See* Ct. Doc. Nos. 35 and 37.<sup>1</sup> Although Jafar – who Al-Amir only lately divulged is an employee – exists, Al-Amir’s participation does not.

The next indication of Al-Amir’s lack of participation involved its boilerplate answer to the complaint. The Defendants’ answer is unusually replete with assertions of ignorance of

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<sup>1</sup> “Due to the fact that Plaintiff has failed to properly serve Defendants, Default Judgment would be improper.” Ct Doc. No. 35, par. 4. “I am not Jafar...” Ct Doc. No. 37, *Affidavit of A. Hammoud*, pars. 5-9.

existing facts that should be well within the control of a retailer and distributor. Defendants assert before this Court that they lack the knowledge to determine whether or not they peddle multiple infringing items. *See Ct Doc. No. 34, Defendants' Answer and Affirmative Defenses*, pars. 29-58.

During the opening phases of discovery, Defendants sandbagged all attempts at arranging a mutually desirable stipulated protective order. *See Ct. Doc. 106*. Defendants then communicated to Mya Saray 26(a)(1) shockingly incomplete disclosures that lacked even the employee and agents of Al-Amir. The sole references to potential witnesses were Hammoud and his son.

In great diligence, Mya Saray served its first set of discovery requests to Al-Amir on January 12, 2011, the opening day of discovery. Even though Al-Amir failed to tender a single objection, it did not provide discovery on the date due. When called to task, Al-Amir tendered a single reason deemed “at best, disingenuous” by this Court. *See Ct. Doc. 78*. When Al-Amir did eventually respond, it did so with only some 20 documents in response Mya Saray’s 41 requests for production, responded 33 times only that it had searched for documents responsive to the requests for production without indicating whether such documents existed, and failed to address the substance of the question in most of the interrogatories served upon Al-Amir. *See Ct. Doc. No. 100*. No excuse for the quality of Al-Amir’s responses was ever tendered.

As discovery speeds to a close on April 15, 2011, Al-Amir has managed to avoid the tender of any meaningful response to the discovery propounded to it on the opening day of discovery, notwithstanding two previous orders compelling full and complete responses. Al-Amir has made it abundantly clear that it will not participate in this litigation at any level with

actions that are tantamount to a challenge to Mya Saray to prove what it can in the face of Al-Amir's lethargic resistance.

## **ARGUMENT**

### **I. SANCTIONS UNDER FED. R. CIV. P. 37(b) FOR WITHHOLDING AND DESTROYING EVIDENCE**

“If a party...fails to obey an order to provide or permit discovery, including an order under Rule...37(a), the court where the action is pending may issue further just orders.” Fed. R. Civ. P. 37(b). Just orders may include the following: “(i) directing that....facts be taken as established for purposes of the action, as the prevailing party claims;...(iii) striking pleadings in whole or part;...(vi) rendering a default judgment against the disobedient party; or (vii) treating as contempt of court the failure to obey any order...” *Id.* The Fourth Circuit has developed a four-part test for a district court to use when determining what sanctions to impose under Rule 37. The court must determine (1) whether the non-complying party acted in bad faith, (2) the amount of prejudice that noncompliance caused the adversary, (3) the need for deterrence of the particular sort of non-compliance, and (4) whether less drastic sanctions would have been effective. *Anderson v. Foundation for Advancement, Educ. and Employment of American Indians*, 155 F.3d 500, 504 (4th Cir. 1998). The effects of Al-Amir's failure to provide discovery is compounded by both the nature of the evidence withheld and the fact that Al-Amir has destroyed key evidence.

#### **A. Defendants Have Conducted Discovery in Bad Faith**

Defendant's discovery misconduct is part of intentional effort to cloud the extent of its infringement. Al-Amir has refused to respond to discovery tendered to it on January 12, 2011 proffering as an excuse, a reason deemed by this Court “disingenuous at best.” When ordered by

this Court to respond, Al-Amir tendered only some 20 documents and disregarded the scope of interrogatories and document requests propounded to it. Al-Amir's failure to provide discovery necessitated that Mya Saray aggressively seek the evidence that Al-Amir neglected to provide. The results of that investigation were startling. Al-Amir withheld the existence of an enormous warehouse housing the majority of their products, and the existence of key personnel with devastating knowledge of Al-Amir's intentionally infringing activity, including Al-Amir's former sales manager, George Ismai. *See Decl. of D. Rollins and Decl. of G. Ismai.* Al-Amir, when directly asked, disclosed neither; Mya Saray, skeptical of Al-Amir's facially incredible answers, found both. *See Id.*

Al-Amir ignored Mya Saray's discovery targeted to determine Mya Saray's damage calculation. Mya Saray's Interrogatory No. 7 drafted to secure quantification of certain "subject products"<sup>2</sup> sold in bulk and information about the recipient went unanswered; Mya Saray's Document Request No. 1. drafted to secure quantification of aspects of Al-Amir's inventory was answered in a manner calculated to thwart Mya Saray's damages calculation. *See Exhibits 1-2.* Because Al-Amir provided not one single document or answer in response to Mya Saray's requests for documents and answers related to sales of products, yet did provide a handful of invoices of products *delivered to Al-Amir* for distribution, counsel for Mya Saray visited the warehouse of Al-Amir with an assistant to quantify remaining hookah products. Hammoud upon informed Mya Saray's counsel and assistant that such products as remained that were relevant to this suit had been discarded "in the garbage." *Decl. D. Rollins*, pars 3-7.

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<sup>2</sup> "Subject Products. Shall include the Al-Amir Andile Hookah, Al Amir Andile Light Hookah, Defendant's Closed Top Hookah Carrying Container, Defendant's Open Top Hookah Carrying Container, Prohibited Packaging and Hookah Products therein, or any article, document, or other thing of which Plaintiff is not the source, yet nonetheless bears or has been sold in connection with the Mya Saray Word Mark or Mya Saray Design Mark." *Plaintiff's First Set Of Interrogatories To Defendant Al-Amir, Inc., Specific Instructions And Definitions*, par. 12.

## 1. Spoliation

“The spoliation of evidence rule allows the drawing of an adverse inference against a party whose intentional conduct causes not just the destruction of evidence ... but also against one who fails to preserve or produce evidence....” *Hodge v. Wal-Mart Stores, Inc.*, 360 F.3d 446, 450 (4th Cir. 2004). The inference stems from the “common sense observation that a party who has notice that [evidence] is relevant to litigation and who proceeds to destroy [evidence] is more likely to have been threatened by [that evidence] than a party in the same position who does not destroy the [evidence].” *Anderson v. Nat'l R.R. Passenger Corp.*, 866 F. Supp. 937, 945 (E.D. Va. 1994) *aff'd*, 74 F.3d 1230 (4th Cir. 1996) *quoting* *Nation-Wide Check Corp. v. Forest Hills Distributors, Inc.*, 692 F.2d 214, 218 (1st Cir.1982). When a “proponent’s intentional conduct contributes to the loss or destruction of evidence, the trial court has discretion to pursue a wide range of responses both for the purpose of leveling the evidentiary playing field and for the purpose of sanctioning the improper conduct.” *Trigon Ins. Co. v. U.S.*, 204 F.R.D. 277, 286 (E.D.Va. 2001) *quoting* *Vodusek v. Bayliner Marine Corp.*, 71 F.3d 148, 156 (4th Cir.1995).

To establish a claim of spoliation, a movant must show that the adverse party had a duty to preserve the allegedly spoiled documents and that the documents were intentionally destroyed. *Trigon*, 204 F.R.D. at 286. The natural consequence of spoliation is that the moving party was prejudiced by the destruction. *Id.* The degree of culpability and the prejudice suffered by the moving party will guide a Court in its formulation of remedial and punitive action. *Id.*

### a. Duty to preserve evidence

To draw an adverse inference from the absence, loss or destruction of evidence, it would have to appear that the evidence would have been relevant to an issue at trial and otherwise

would naturally have been introduced into evidence. *Stroupe v. Wal-Mart Stores E., L.P.*, 2007 WL 3223224 at \*1 (E.D. Va. Oct. 29, 2007). Bad faith in the destruction is not necessary in order for an adverse inference to be applied. *Id.* However, “the inference requires a showing that the party knew the evidence was relevant to some issue at trial and that his willful conduct resulted in its loss or destruction.” *Id.* Once a party is on notice, e.g. via discovery request, that evidence is necessary to the opposing party’s claim, that party is under a duty not to take actions that would result in the destruction of the evidence. *Trigon Ins. Co. v. U.S.*, 204 F.R.D. 277, 287 (E.D.Va. 2001). Counterfeiters and other intentional infringers are often held to a higher standard. *See e.g., Computing Scale Co. v. Toledo Computing Scale Co.*, 279 F. 648, 673 (7th Cir.1921)(a knowing infringer “should be held to the duty of keeping separate and accurate records of all his infringing acts; and, on his failure to keep such records, the court, in measuring the damages on account of his trespasses, should resolve all doubts against him”).

In this case, Defendants will not and/or cannot quantify their sales records of articles relevant to the present case. Defendants have, however, produced a small number of records of *shipments of hookah products to Al-Amir* for regional distribution. *See Exhibits 3-5*. The logical, but less-preferred, recourse in light of Defendants selective record keeping is simply to count remaining items and then compare the counted quantity to ordered items to determine items sold – of course, the matter of distribution target remains unsolved. In ‘throwing away the remaining’ infringing products, Defendants have destroyed vital evidence necessary to determine the quantity of infringing and contract-breaching products distributed. Mya Saray’s contract damages, unfair competition, and patent infringement damages are directly correlated to the harm tied to the quantity of counterfeit goods circulating throughout defined markets and the customers that received them.

If it is indeed true that Defendants lack any records related to their outgoing inventory, and if Defendants were concerned in the slightest about an accurate determination of their product distribution, they would know to retain such remaining inventory to determine product sales. Although bad faith is not a prerequisite to satisfy the first element of the *Trigon* standard, Defendants' act of discarding evidence, an act which can serve no purpose other than to cloud the extent of Defendants' liability – and especially when Defendants' actions are viewed in connection with their unwillingness/inability to disclose inventory records – the sensible conclusion is that Defendants are acting in bad faith. Defendants certainly meet the simpler, articulated standard of knowledge that destroyed evidence was relevant: both the character and the quantity of the infringing and contract-breaching products are at issue. Defendants 'threw them away.' Decl. of D. Rollins, par. 3-7.

#### b. Intention to Destroy Evidence

"An adverse inference about a party's consciousness of the weakness of his case ... cannot be drawn merely from his negligent loss or destruction of evidence; the inference requires a showing that the party knew the evidence was relevant to some issue at trial and that his willful conduct resulted in its loss or destruction." *Vodusek v. Bayliner Marine Corp.*, 71 F.3d 148, 156 (4th Cir. 1995). Throwing away evidence is an intentional act for purposes of sanctions. *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228, 1244 (10th Cir. 2006)(10th Circuit upholds trial court's imposition of sanctions against a party that threw away relevant documents related to infringement). Hammoud's statement was unequivocal: the products at issue in this case were either thrown away or no longer present. Decl. of D. Rollins, par. 3-7.



c. Arriving at the Appropriate Remedy

Once spoliation has been established, the sanction chosen must achieve deterrence, burden the guilty party with the risk of an incorrect determination, and attempt to place the prejudiced party in the evidentiary position it would have been in but for the spoliation. *Trigon*, 204 F.R.D. at 287. Each case must be decided on its own facts and there is no definitive set of factors that must be considered in formulating an appropriate sanction for spoliation; however, factors found persuasive include:

- (1) the degree of fault of the party who altered or destroyed the evidence;
- (2) the degree of prejudice suffered by the opposing party; and
- (3) whether there is a lesser sanction that will avoid substantial unfairness to the opposing party and, where the offending party is seriously at fault, will serve to deter such conduct by others in the future.

*Id.* citing *Schmid v. Milwaukee Elec. Tool Corp.*, 13 F.3d 76, 79 (3rd Cir. 1994).

Defendants' spoliation actions demonstrate a high degree of fault and the spoliation extends across the damages calculations of all the causes of action brought by Mya Saray. It is proper that this Court take certain facts as established sufficient to compensate for Al-Amir's spoliation of evidence necessary for a damages calculation. Mya Saray requests the sanctions of its proposed order submitted herewith. Because Defendants' spoliation should be viewed in the totality of its discovery misconduct, the appropriateness of these sanctions are discussed in Section I.D., *infra*.

2. Al-Amir Withheld Evidence and Supplied Misleading Evidence

"When a party is once found to be...suppressing...documents, the natural, indeed the inevitable, conclusion is that he has something to conceal, and is conscious of guilt." *Skibs Aktieselskapet Orenor v. The Audrey*, 181 F.Supp. 697, 701 (D.C.Va. 1960) citing *Warner*

*Barnes & Co. v. Kokosai Kisen Kabushiki Kaisha*, 2 Cir., 102 F.2d 450, 453 (2nd Cir. 1939)(L. Hand). Reasonable doubts related to the facts stemming from the suppression should be resolved against the suppressing party. *Id.* at 704. Suppression is not merely a product of active concealment; intentional or grossly negligent acts that hinder discovery merit sanctions, even if those acts are not ultimately responsible for the unavailability of the evidence. *Residential Funding Corp. v. DeGeorge Financial Corp.*, 306 F.3d 99, 110 (2nd Cir. 2002). “When a litigant destroys, removes, or withholds records or documents while litigation is pending, or even while litigation is being contemplated, the strongest inferences may be drawn against that party which the opposing evidence in the record permits.” *Cecil Corley Motor Co., Inc. v. General Motors Corp.*, 380 F.Supp. 819, 859 (D.C.Tenn. 1974).

Al-Amir’s refusal to provide effective discovery on certain topics has blatantly mislead Mya Saray in an attempt to divert Mya Saray from Al-Amir’s total liability. In addition to lethargically participating in discovery and actively destroying evidence; Mya Saray has also caught Al-Amir suppressing evidence. There are two prominent and devastating examples of Al-Amir’s evidentiary withholding: the existence of a massive hookah storage warehouse unmentioned in any of Al-Amir’s discovery answers, and the failure to mention Al-Amir’s sales agent who has an encyclopedic knowledge of Al-Amir’s business activities from 2007 to late 2010. . See Decl. of D. Rollins and Decl. of G. Ismair.

a. Al-Amir Suppressed the Existence of its Hookah Storage Warehouse.

Al-Amir first appeared in this court decrying the injustice of dragging a small “mom-and-pop” retail store in the depressed state of Michigan into court in Virginia to litigate against the giant, Mya Saray.

These parties present this court with a classic David versus Goliath relationship...It is beyond dispute that Mya Saray is the worldwide industry leader in hookah products. ...In stark opposition sits Al-Amir Inc., which by all accounts is a local mom-and-pop store in Dearborn, Michigan...The Court should also consider the economic climate in the State of Michigan.

Ct. Doc. 44, p. 8. The existence of Defendants' massive warehouse for the national distribution of counterfeit products on Chase Avenue in Dearborn, MI apparently did not fit within the bounds of Defendants' fictional melodrama script. *See Decl. D. Rollins*, pars 9-11. Defendants omitted any mention of this warehouse from their discovery responses. It is incredible that Mya Saray in its Interrogatory 1 in Mya Saray's First Set of Interrogatories to Defendant Al-Amir would ask:

**INTERROGATORY NO. 1.** State the physical location(s) of all inventories of any and all hookahs and hookah parts that are under the control of the Defendants, anywhere in the world since 2007. For each such location, state the address, the name of the landlord or any custodian of the inventory, and the amount of inventory with specific reference to category of Subject Product, including parts and accessories, at that location.

to which Al-Amir responded:

**RESPONSE:** Al-Amir Inc., 15322 W. Warren Ave, Dearborn, MI 48126. Defendants are not in possession of any of the Subject Products.

Exhibit 6. That Al-Amir could distribute hookah products on an importer-distributor's natural scale without a significant storage depot was of course unbelievable. Mya Saray was forced to uncover through independent sources the existence of the Chase Avenue warehouse, which is presently registered in the name of a Hussein Hammoud. Decl. D. Rollins, par. 8. Al-Amir's hookahs are nonetheless stored there – and in great quantity. Decl. D. Rollins, pars. 9-11.

When counsel for Mya Saray requested a premises inspection under Fed. R. Civ. P. 34, Defendants acquiesced and allowed counsel for Mya Saray and an assistant into the Chase

Avenue warehouse on March 28, 2011. Hookahs and hookah components, and also hookah tobacco, were stacked to a 15-20 ft ceiling about a massive warehouse. Decl. of D. Rollins, pars. 9-11. That such a significant storage facility would pass unmentioned in an interrogatory that expressly and compactly asked about the existence of any such facilities is inexcusable. The hardship that this omission caused Mya Saray's discovery efforts is substantial and not readily quantifiable; that the Defendants would have the temerity to attempt to suppress the existence of this warehouse speaks volumes to the types of evidence that may likely be hidden. Mya Saray has operated under a great and justifiable degree of skepticism, which coupled with its diligence has permitted it to uncover evidence that Al-Amir might otherwise have succeeded in hiding. The law of averages portends that Mya Saray cannot uncover all that Al-Amir suppresses.

b. Al-Amir Withheld Evidence of Former Employees with Substantial Knowledge  
of Al-Amir's Infringing and Contract-Breaching Activities.

The second example of game-changing evidence withheld by Defendants from Mya Saray includes the existence of George Ismail ("Ismail"). Ismail worked as a sales manager for Al-Amir from 2007 until 2010 and coordinated a substantial portion of Al-Amir's distribution activities, the exact period of contract breach and infringement that is the subject of the present litigation. Decl. of G. Ismail, par. 4. Despite the Defendants' attempts to hide Ismail, Mya Saray located him. Ismail arguably ought to have been disclosed pursuant to initial disclosures, but certainly should have been prominently mentioned by Al-Amir in response to interrogatory 2 of Mya Saray's First Set of Interrogatories to Defendant Al-Amir.

**INTERROGATORY NO. 2** Identify all persons, businesses, and entities involved in the proliferation of each Subject Product categorized by each Subject Product and by the following stages of development:

...

*g. the marketing and advertisement of each Subject Product.*

Exhibit 6 (emphasis added). Ismair was not mentioned. Nor was Ismair mentioned by Al-Amir in response to Interrogatory 3 of Mya Saray's First Set of Interrogatories to Defendant Al-Amir.

**INTERROGATORY NO. 3** State the name, address and telephone number of each accountant, bookkeeper, employee or agent of the Defendant who has:

*(a) assisted Defendant in the provision of any Subject Product since 2008;*

*(b) sold products to Defendants in 2007-2010, and*

*(c) provided shipment services to/from the Defendants in 2007-2010, including freight forwarders or customs agents.*

Exhibit 6 (emphasis added). Instead Al-Amir relied on the facially bogus response that it neither marketed nor advertised the products that it sold and that no one assisted Al-Amir in providing its products to consumers or retailers. Marketing and sales of the infringing products of this litigation, or rather all of Al-Amir's products, happened to be the responsibility of Ismair for the past four years. Decl. G. Ismair, par. 4. As with the warehouse of Al-Amir, Al-Amir did not disclose Ismair when directly asked about key personnel; Mya Saray had to find Ismair. This is contrary to the Federal Rules of Civil Procedure and this Court's express orders.

**B. Defendants' Noncompliance Has Drastically Prejudiced Mya Saray**

Prejudice related to discovery noncompliance can be found in "expense, annoyance, and delay of prosecuting litigation" as borne by the prejudiced party. *Anderson*, at 155 F.3d at 505. The expenses and annoyance borne by Mya Saray in tracking down the evidence that Al-Amir ought to have disclosed is voluminous. Al-Amir's destruction of evidence discussed in Section I.A.1., *supra*, frustrated much of the purpose of Mya Saray's Rule 34 premises inspection of Al-Amir's facilities on March 28, 2011. This expense of this inspection was substantial. The time spent by attorneys in reviewing bogus evidence is substantial. And proof that a party has

produced fraudulent evidence taints all evidence produced by that part; all evidence must be carefully scrutinized on many levels to ensure accuracy. Mya Saray has had to issue subpoenas to third parties to seek documents that Al-Amir ought to have possessed. One of the import agents utilized by Al-Amir, TMS International, lacks any sort of official status by which it can be reliably tracked.

There is also the annoyance of marshalling reliable evidence in a fast litigation docket while pursuing one of the most notoriously complicated causes of action: patent infringement. Also, Mya Saray has been compelled to cancel the depositions of Al-Amir and its parties originally noticed for the week of April 11, 2011. There is substantial prejudice in the inability to effectively depose a significant witness on the basis of a party's discovery misconduct. *Wu v. Tseng*, WL 4360990 at \*5 (E.D.Va. 2008). There is also prejudice when a party is unable to verify material facts based on a party's discovery misconduct. *Id.* That Defendants have not produced the primary means of permitting Mya Saray to determine its damages (i.e., documents and response as to quantities of infringing and contract-breaching articles distributed/sold by Defendants) and then destroying the only viable alternative means of quantifying Mya Saray's damages (i.e., reviewing remaining articles) has certainly stifled Mya Saray's ability to prove material facts.

### **C. Public Policy Favors Penalizing Those That Destroy and Suppress Evidence**

Al-Amir began this litigation by avoiding and harrying the process servers of Mya Saray, feigning ignorance of this suit, while concocting a ruse to obfuscate the very existence of Al-Amir, until the final moments of default. This maneuver prevented Mya Saray from filing the motion for expedited discovery that it otherwise would have naturally filed in the complex

litigation of the present genre. Mya Saray acting with great speed propounded discovery requests to Al-Amir on the opening day of discovery. When it became apparent that Al-Amir would not respond *at all* to its discovery requests, Mya Saray declined Al-Amir's month extension request and moved to compel production within days in which Al-Amir's response was due and scheduled the hearing for the first applicable hearing day. Al-Amir was ordered to compel by a date certain and sanctioned. Mya Saray again moved to compel within days of Al-Amir's insufficient response for the first applicable hearing day. Again, Al-Amir was ordered to compel by a date certain and sanctioned. Yet again, Al-Amir did not respond and Mya Saray files this present motion within days of Al-Amir's nonresponsiveness – which also happens to be the close of discovery.

For from sitting on its hands, Mya Saray has dynamically hounded Defendants from the first day of discovery to the last day of discovery to produce the documents and responses that it ought to have produced in mid-February. The fruits of Mya Saray's discovery efforts from Defendants consist of some 20 documents constituting only select products *shipped to Al-Amir*; promises that it is looking for documents pertaining to 41 document categories; and implications that it has never had a phone bill, outgoing invoice, employee outside of Hammoud's immediate family (although Mya Saray's process servers photographed an employee other than one disclosed), brochure, or tally of inventory quantity. Furthermore, important evidence of infringement, and damages related thereto, that existed at the initiation of this suit has been purposefully destroyed by Defendants. If Defendants were to surface from this litigation without sanction, their actions would serve as a template for the other infringement-defendants to go limp in an effort to avoid disclosing any material information while selectively awakening to construct a façade based on false information.

**D. The Sanction Requested by Mya Saray is Approved by Case Law and Narrowly Tailored to Correspond to Issues for which Defendants Suppressed Discovery.**

Mya requests three substantive sanctions: that Defendants' answer be stricken and that Defendants be returned to their default status for final entry of default; that the deadline for Mya Saray to conduct discovery in relation to its damages be extended to May 27, 2011; and that certain facts be taken as established for the purposes of the action.

**1. Entry of Default is Appropriate as Defendants Only Emerged from Default Citing a Desire to Defend Itself Only to Refuse to Meaningfully Participate in this Litigation.**

Mya Saray requests that this Court sanction Defendants. Defendants have shown no desire to participate in this suit, it is therefore fitting that Defendants' pleadings be struck and that this Court enter default judgment against Defendants. *Sivelle v. Maloof*, 373 F.2d 520, 521 (1st Cir. 1967) ("Finally, there is no merit in defendant's claim that the court erred in defaulting him for failure to answer interrogatories...The record discloses either a total lack of diligence on the part of counsel, or extended indifference to his case on the part of the defendant."). Defendants lethargy has stifled Mya Saray's ability to prosecute this litigation generally, and also to ascertain its damages specifically. Calculated, continued non-responsiveness to withhold documents related to proving damages in an intellectual property infringement suit can, by itself, be a basis for imposing a default on the non-producing party. *Monogram Models, Inc. v. Industro Motive Corp.*, 492 F.2d 1281, 1287-88 (6th Cir. 1974). As the *Monogram* court explained:

[the defendant] cannot prevent [the copyright holder] from ascertaining the facts with regard to damages by remaining silent and failing to answer interrogatories duly submitted to it, and then assert that it has been denied due process when sanctions for



such refusal to answer are imposed as outlined in [Rule 37(b)]. The District Court did not err in defaulting [the defendant] on the issue of damages.

*Id.* Withholding information specifically sought by Mya Saray for purposes of ascertaining its damages is precisely the course that Defendants have charted.

2. Extension of the Discovery Deadline for Mya Saray is Appropriate as Defendants' Lethargy has Hindered Mya Saray from Conducting Discovery Under the Pretense of Defendants' Participation.

Mya Saray has attempted to conduct discovery in the conventional manner, that is to say, under the assumption that Al-Amir would participate meaningfully. Al-Amir has not participated in any meaningful manner in *any aspect of discovery*. This Court has shown a willingness to extend discovery deadlines for parties prejudiced with the discovery misconduct of an opposing party and other general, unexpected discovery complications. *Great American Ins. Co. v. Gross*, 2007 WL 1577503 at \*14 (E.D.Va. 2007)(Court grants extension of discovery deadlines to conduct depositions in response to motion to compel); *Cappetta v. GC Services Ltd. Partnership*, 2009 WL 482474 at \*6 (E.D.Va. 2009)(“Additional discovery disputes have arisen, and the Court extended discovery for an additional sixty days beyond the extended discovery cutoff.”); *Elite Entertainment, Inc. v. Khela Brothers Entertainment*, 227 F.R.D. 444, 445 (E.D.Va. 2005)(Court extends deadline by 4 months to accommodate newly amended claims); *Minnesota Lawyers Mut. Ins. Co. v. Batzli*, 2010 WL 424234 at \*1 (E.D.Va. 2010)(Court grants limited extension of expert discovery deadline).

3. Taking Certain Facts Related To Damages As Established.

Al-Amir's refusal to provide effective discovery on certain topics has blatantly mislead Mya Saray in an attempt to divert Mya Saray from Al-Amir's total liability. In addition to

lethargically participating in discovery; Mya Saray has also caught Al-Amir in hiding and destroying evidence. To mitigate these actions Mya Saray requests that this Court take certain facts as established for the purposes of this action as listed in subparts i-iv in the proposed order submitted herewith.

This case can be distilled into four basic wrongs: (a) the product design of the hookah depicted in Exhibit M of Plaintiff's First Amended Complaint infringes the trademark to Mya Saray's QT Base product configuration, including U.S. TM Reg. No. 3,845,276; (b) the hookah depicted in Exhibit N of Plaintiff's First Amended Complaint sold by Al-Amir is an infringement of Mya Saray's U.S. Patent No. 7,404,405; (c) That Al-Amir secured, fabricated, and sold various articles and packaging calculated to dupe consumers into believing that they were purchasing a Mya Saray product, when in fact they were not; and (d) that in performing actions (a) and (c) beyond the effective date of the November 2008 Settlement Agreement between the parties, that Al-Amir is in breach of the Settlement Agreement. Al-Amir's actions in discovery are largely calculated to obscure the extent of the wrongs listed above and thwart Mya Saray's capacity to secure a damages estimate; it is fitting that this court therefore take certain facts related to damages as established facts based on presumptions adverse to Al-Amir.

a. Facts Related to Sales of the Al-Amir Andile Hookah

Al-Amir was sued by Mya Saray in 2007 because, among other reasons, it sought and sold counterfeit hookahs of the Mya Saray QT hookah. Al-Amir supplied counterfeit QT hookahs to the Detroit-MI area through two different counterfeit suppliers, Kassir Co. and T.M.S. International. *See Exhibits 3-5 and Decl. G. Ismair*, par. 10. Defendants did not order of the T.M.S. counterfeits of the QT hookah until late 2010. *See Exhibit 5*. Therefore, the

counterfeit QT hookahs sold to the investigator for Mya Saray on June 16, 2009 could only have come from remaining stock of the Kassir Co. counterfeit QT hookahs. *See Ct. Doc. No. 20-2*, Decl. of D. Rollins, pars 13-14. This hookah was sold as an “Andile” hookah.

Al-Amir also proffers through discovery invoices submitted to it in ordering 850 of the “Andile” style hookah from T.M.S. International as catalogue number 8168, designated “Empire.” *See Exhibits 5 and 7*. Al-Amir did not respond to any discovery request seeking data on Andile hookahs sold whether by quantity or customer characteristics, location, etc. *See e.g. Exhibits 1-2* (Specifically, Interrogatory 7 and Request for Production No. 1). Furthermore, Defendants destroyed any such infringing hookahs as remained to prevent an accurate calculation by Mya Saray of articles sold by Defendants and the characteristics of those articles.

In *Larsen v. Terk Technologies Corp.*, 151 F.3d 140 (4th Cir. 1998) the Fourth Circuit scrutinized the damages calculation of the district court in its award to a trademark infringement plaintiff. Finding that the plaintiff and defendant sold articles to a common customer base, the court upheld the trial court’s use of the infringer’s sales as a starting point for the damages analysis. *Id.* at 150. Although a substantial portion of the award to the plaintiff was based on defendant’s profits, the court also upheld the district court’s award of the plaintiff’s lost profits per article diverted from plaintiff to defendant. *See id.*

Therefore, Mya Saray requests that this Court take the following facts as established, and all reasonable inferences related thereto, relating to sales of Defendants’ Andile hookahs from its Maganda stock:

That Al-Amir sold every Maganda hookah that it possessed; that Al-Amir sold 850 Maganda hookahs subsequent to the litigation settlement agreement between Al-Amir and Mya Saray of effective date November 14, 2008; that the Maganda hookah product design is an infringement of U.S. TM Reg. No. 3,845,276 and the common law trademark

for the Mya Saray QT hookah product configuration; that Al-Amir had at all times actual notice of such registration and trademark; that all such sales were in the Detroit Metropolitan area; and that each sale of the Maganda hookah by Al-Amir directly resulted in one less sale for Mya Saray of a QT hookah product; and that Mya Saray's damages are equal to its provable profit on the sale of one QT hookah in a closed-top cage per Maganda hookah sold by Al-Amir in a closed-top cage.

The product sum of 850 derives from a total of the last two orders of Al-Amir from Kassir Co. of the Maganga hookah, of 200 and 650 units respectively. *See Exhibit 3.* Maganda hookahs from the last order certainly remained in stock and Mya Saray requests that this Court take one step further and also find that Maganda hookahs from the penultimate order also remained. Regarding Defendants' Andile hookahs from its Empire stock:

That Al-Amir sold every Empire hookah that it possessed; that Empire hookahs included closed-top cages as depicted in Exhibit M of Plaintiff's First Amended Complaint; that Al-Amir possessed at least 750 Empire hookahs in closed-top cages; that the Empire hookah product design is an infringement of U.S. TM Reg. No. 3,845,276 and the common law trademark for the Mya Saray QT hookah product configuration; that Al-Amir had at all times actual notice of such registration and trademark; that all such sales were in the Detroit Metropolitan area; that each sale of the Empire hookah by Al-Amir directly resulted in one less sale for Mya Saray of a QT hookah product; and that Mya Saray's damages include its provable profit on the sale of one QT hookah in a closed-top cage per Andile hookah sold by Al-Amir in a closed-top cage.<sup>3</sup>

#### b. Facts Related to the Infringement of U.S. Patent No. 7,404,405

Al-Amir proffers through discovery invoices submitted to it in ordering 5,420 of the "Andile Light" style hookah from Kassir Co. as catalogue reference 'Hookah Jamila Cage.' *See Exhibits 3-4.* Al-Amir did not respond to any discovery request seeking data on Jamila hookahs sold whether by quantity or customer characteristics, location, etc. *See Exhibits 1-2.* Furthermore, Defendants destroyed any such infringing hookahs as remained to prevent an accurate calculation by Mya Saray of articles sold by Defendants and the characteristics of those

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<sup>3</sup> See Proposed order, Section XX.

articles. This is particularly significant in the present instance as certain of the Jamila hookahs sold include a carrying cage that Mya Saray alleges infringes its U.S. Patent No. 7,404, 405 whereas other models of the Jamila include a non-infringing closed-top carrying cage. Although Mya Saray's discovery requests asked that discovery responses be categorized by the "Subject Product," which included the Jamila within an open top carrying cage as opposed to the closed carrying cage, see n. 2, *infra.*, Al-Amir failed to respond in this manner. Instead Al-Amir provided a nonresponsive list of all Jamila orders.

To mitigate Al-Amir's nonreponsiveness, Mya Saray requests that this Court take the reasonable inference that the final two orders of Jamila hookahs in a carrying cage from Kassir Co. constituted Jamila hookahs in the open top carrying cage of Exhibit N of Plaintiff's First Amended Complaint. Construing these two orders of Jamila hookahs thusly is appropriate as the Jamila hookah in the open-top top carrying cage was first purchased from Al-Amir by an investigator for Mya Saray on March 22, 2010. See Ct. Doc. No. 20-2, Decl. of D. Rollins, par. 23. This was the date that Mya Saray became aware that these patent infringing sales were occurring. The final two orders of the Jamila in the open-top carrying cage by Al-Amir were on April 16, 2010, approximately one month after the investigator's purchase of the Jamila in the open-top carrying cage, and October 5, 2009, approximately five months prior to after the investigator's purchase of the Jamila in the open-top carrying cage – presumably the investigator acquired a hookah from this October order. See Exhibit 3. The total of these two orders is 1820 units.

The measure of damages is an amount which will compensate the patent owner for the pecuniary loss sustained because of the infringement. *Black & Decker (U.S.) Inc. v. Pro-Tech Power Inc.*, 26 F.Supp.2d 834, 859 (E.D.Va. 1998) *citing State Industries, Inc. v. Mor-Flo Industries, Inc.*, 883 F.2d 1573, 1577 (Fed.Cir.1989). In order for the patent owner to obtain lost

profits as actual damages, there must be a demonstration that there was a reasonable probability that, but for the infringement, it would have made the infringer's sales. *See id.* Uncertainties that arise from the infringer's failure to keep comprehensive or accurate records are resolved in favor of the patentee. *Beatrice Foods Co. v. New England Printing and Lithographing Co.*, 899 F.2d 1171, 1175-76 (Fed. Cir. 1990)(“An infringer can not destroy the evidence of the extent of its wrongdoing, and limit its liability to that which it failed to destroy.”) “Fundamental principles of justice require us to throw any risk of uncertainty upon the wrongdoer rather than upon the injured party.” *Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc.*, 761 F.2d 649, 655 (Fed.Cir. 1985); *See also Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 620 (1912) (infringer bears the risk where precise calculation impossible); *Computing Scale Co. v. Toledo Computing Scale Co.*, 279 F. 648, 673 (7th Cir. 1921) (a knowing infringer “should be held to the duty of keeping separate and accurate records of all his infringing acts; and, on his failure to keep such records, the court, in measuring the damages on account of his trespasses, should resolve all doubts against him”)

In *Beatrice Foods*, a defendant patent infringer appealed a damages award predicated on facts taken as established to mitigate a finding of the infringer's spoliation. *Beatrice Foods*, 899 F.2d at 1172. The trial court incensed that the infringer destroyed its “job tickets, [which were] the only yardstick to measure accurately defendant's guilt in dollars” and noting “[defendant]'s lack of cooperation and refusals to respond in discovery and other procedures” found an equitable determination of the amount of damages suffered by the patentee. *Id.* at 1174. The Federal Circuit affirmed the findings of the trial court in its capacity to equitably quantify the infringer's sales using an adverse presumption against the infringer and then relate those sales to the lost sales of the patentee. *Id.* at 1175-76. The court did, however, remand the damage

calculation back to the trial court as it was error to directly equate the lost profits of the patentee to the infringer's profits in selling the infringing item. *Id.* at 1176. Patent infringement damages, unlike trademark infringement damages, may only be based on the patentee's lost profits. *Id.*

Therefore, Mya Saray requests that this Court take the following facts as established, and all reasonable inferences related thereto, relating to sales of Defendants' Andile hookah:

That Al-Amir sold every Jamila hookah that it possessed; that Al-Amir possessed at least 1820 Jamila hookahs in open-top cages; that the Jamila hookah product design when sold in the open-top cage, as depicted in Exhibit N of Plaintiff's First Amended Complaint, is an infringement of U.S. Patent No. 7,404,405; that Al-Amir had at all times actual notice of such patent rights and that the infringement was willful; that all such sales were in the Detroit Metropolitan area; that each sale of the Jamila hookah in the open-top cage by Al-Amir directly resulted in one less sale for Mya Saray of a QT hookah product with an open-top cage; and that Mya Saray's damages are equal to its provable profit on the sale of one QT hookah in an open-top cage per Jamila hookah sold by Al-Amir in an open-top cage.

#### c. Facts Related to Al-Amir's Unfair Competition

To force a defendant to disgorge the profits obtained because of its unfair competition, the Lanham Act requires, "the plaintiff ... to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed" in determining the profit derived from the sale. *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942). The Defendants have been wholly silent on sales of two products of interest in the present litigation. The first product is the hookah depicted in Exhibit 6 of the Declaration of D. Rollins, Ct. Doc. No. 20-2, see also the present Decl. of D. Rollins, par. 7, Exhibit D (the "Mutt Hookah"). The Mutt Hookah is an aggregation of components of unknown origin with a legitimate Mya Saray

stem prominently displaying Mya Saray source indicia. Decl. D. Rollins, par. 7 and Decl. of G. Ismail, par. 17. The second product is the hookah line sold in the packaging of Exhibit H of Plaintiff's First Amended Complaint ("Counterfeit Packaging"). Decl. of G. Ismail, pars. 9-10 and 12-16. Mya Saray asked for information about these products by quantity, sales thereof, and purchaser characteristics generally in, for example, Document Request No. 1 and then specifically in Interrogatory No. 1 and others.

When counsel for Mya Saray arrived to inspect the facilities of Defendants, they claimed to have thrown away or sold all of the approximately 1,000 Mutt Hookahs that Defendants at one time possessed, but exhausted their inventory of the Counterfeit Packaging long ago. Decl. D. Rollins, par. 7. Hammoud described only the stem of the Mutt Hookah as a legitimate Mya Saray component, but that the other portions derived from other sources. *Id.* The Defendants sold a version of the Mutt Hookah to undercover investigators for Mya Saray on October 20, 2009 for \$20.00. Ct. Doc. No. 20-2, Decl. of D. Rollins, par. 20. The selling price of the hookah in the Counterfeit Packaging is \$34.00. *See* Exhibit 8.

Therefore, Mya Saray requests that this Court take the following facts as established, and all reasonable inferences related thereto, relating to sales of Defendants' miscellaneous products calculated to confuse consumers into believing that they were purchasing a Mya Saray hookah:

That Al-Amir possessed and sold 1000 of the hookahs depicted in Exhibit 6 of the Declaration of D. Rollins, Ct. Doc. No. 20-2, filed in Support of the Motion for Preliminary Injunction, Ct. Doc. No. 19; that the characteristics of the hookah are it includes only a genuine Mya Saray stem and all other components are of non-Mya Saray origin; that any sales of such hookah are by their nature intended to, and did, confuse the relevant purchaser into believing that said hookah was a Mya Saray hookah; and that the



profits by Al-Amir of sales of such hookah are presumably \$20.00 less such offsetting amounts as provable by Al-Amir are related to its costs and overhead.

That Al-Amir had and sold an indeterminable quantity of hookahs in the packaging of Exhibit H of Plaintiff's First Amended Complaint up until at least December 2008; and that any sales of hookahs within such packaging are by their nature intended to, and did, confuse the relevant purchaser into believing that said hookah was a Mya Saray hookah; and that the profits by Al-Amir of sales of such hookah are presumably \$34.00 less such offsetting amounts as provable by Al-Amir are related to its costs and overhead.

d. The Reasonableness of the Facts Requested to be Taken as Established

The facts that Mya Saray requests this Court to take as established are conservative and narrowly drawn to fill in the gaps in Mya Saray's damages calculation that were requested from, but withheld by, Defendants. Taking as established facts appropriate to the quantity of infringing products sold by Defendants with the inference that all products ordered by Defendants were sold by Defendants is appropriate in light of their suppression and spoliation. Taking as established facts related to the sales of articles to the Detroit locale provides characteristics of the purchasers withheld by Defendants. These characteristics are important as the geographic locale is determinate of the concentration of the harm and permits Mya Saray to use sales data for the Michigan area as a basis to determine lost profits. Taking as established facts related to the sales price of articles is appropriate as Al-Amir's answer to Interrogatory 7 was grossly lacking; in a request that covers approximately 6 products, see n. 2 *supra*, Al-Amir supplied a sales price for only one product – without attempting to specify the particular product to which it applied. See Exhibit 1. Other miscellaneous facts, such as willfulness, notice, and the like, are appropriate in light of Defendants' suppression of Ismail and other facts related to this litigation.



## Certificate of Service

I hereby certify that on April 15, 2011 I electronically filed the foregoing Brief in Support of Motion to Impose Sanctions with the Clerk of Court using the CM/ECF system, which will send notice of such filing to counsel of record who are registered with CM/ECF. Furthermore, a physical copy was mailed via U.S. first class mail to the registered agent of Al-Amir at 15322 West Warren Avenue; Dearborn, Michigan 48126 and A. Hammoud at 27120 Kingswood Drive; Dearborn Heights, MI 68127.

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