

In the High Court of South Africa
KwaZulu-Natal Local Division, Durban

Case No: 13398/2015

In the matter between:

United Medical Devices LLC

First Applicant

United Convenience Supply LLC

Second Applicant

And

Blue Rock Capital Limited

First Respondent

Espro Investments Limited

Second Respondent

In re:

Blue Rock Capital Limited

First Applicant

Espro Investments Limited

Second Applicant

And

United Medical Devices LLC

First Respondent

United Convenience Supply LLC

Second Respondent

Playboy Enterprises Incorporated
Registrar of Trademarks and Patents

Third Respondent
Fourth Respondent

Judgment

Marks AJ:

Introduction

[1] The applicants seek the reconsideration and setting aside of this court's order dated 22 December 2015 authorising the attachment of property of the applicants in order to confirm jurisdiction of this court and granting leave to the respondents to institute an action by way of edictal citation. This application has been launched on an urgent basis in terms of Rule 6(12)(c) of the Uniform Rules of Court. The respondents oppose the relief sought and challenge the authority of the applicants' legal representatives, the authority of the deponent to the founding affidavit (in a Rule 7(1) notice that was served on the applicant), and the urgency with which the present application was brought.

[2] Before dealing with these challenges raised or the merits of the application, I deem it expedient to give a brief synopsis of the background history of the matter.

Background

[3] The applicants are both private limited liability companies duly incorporated in accordance with the company laws of the State of California, United States of America having their principal place of business in California, United States.

[4] The respondents are both private limited liability companies duly incorporated in accordance with the company laws of the Republic of Mauritius with their principal places of business in Durban, Republic of South Africa.

[5] On 1 April 2014 at Durban, the parties signed a written agreement in terms whereof the applicants granted to the respondents the exclusive right to advertise, market, offer, sell and distribute , condoms and lubricants amongst other items, subject to certain conditions for a period of ten years commencing on 1 April 2014.

[6] On 22 September 2015 the applicants sent a written notice of cancellation of the aforementioned agreement contending that the respondents have breached the conditions thereof.

[7] On 29 November 2015 the respondents' attorneys replied to the notice stipulating that this amounted to a repudiation of the contract which the respondents do not accept.

[8] After several letters of correspondence were exchanged between the parties' attorneys, on the 21 December 2015 the respondents approached this court with an urgent *ex parte* application to found or confirm the jurisdiction of this court to entertain an action which the respondents intended to pursue against applicants as *peregrini*. The respondents also sought relief to serve such papers on the applicants by way of edictal citation in the form of an Intendit. The order was duly granted by Balton J with the return date being 9 March 2016 as follows :

- 1.1 that the Applicants be and they are hereby authorised to attach, or to cause to be attached, all the rights, title and interest of UNITED MEDICAL DEVICES LLC ("UMD") and UNITED CONVENIENCE SUPPLY LLC ("UCS") to exclusively use the Trade Mark "PLAYBOY" and the Rabbit Head Design ("the Trademark") within, inter alia, the Republic of South Africa ("the Territory") and to exclusively advertise, market, offer, sell, distribute sell,

amongst other items, condoms, personal non-medicated lubricants associated therewith and smoke-free and tobacco-free electronic cigarettes, electronic cigars and other vapor products ("the Products") either directly or through third party resellers, dealers or sub-distributors within the Territory to or through: (i) specialty stores, mass market stores, convenience stores, drug stores, food stores, hypermarkets and any other retail stores that customary sell the Products all of which may or may not have their own e-commerce website; (ii) duty-free stores (but specifically excluding in-flight and cruise ship duty-free channels of distribution or duty-free sales that take place on airplanes, cruise ships or duty free magazines); (iii) E-tailers which will promote the availability of the Products via such E-tailers' E-Commerce Website and which will fulfill orders for the Products placed through such E-Commerce Website to and only to those addresses located in the Territory; (iv) Playboy-branded retail stores; (v) non-Playboy branded catalogs; and (vi) any other channels as approved in advance in writing by UMD and UCS ("the Vested Rights") at the place of business of the Applicants at 231 Chamberlain Road, Jacobs, Durban, Republic of South Africa, or at such other address in the Republic of South Africa at which the same might be located, so as to confirm the jurisdiction of the above Honourable Court to entertain an action to be instituted by the Applicants against UMD and UCS out of the above Honourable Court for the relief referred to in clause 2 hereunder which attachment is to be reflected in the records of the Fourth Respondent, Pretoria;

1.2 that the Sheriff or his deputy be and he is hereby authorised and required to attach the Vested Rights above referred to so as to found or confirm jurisdiction as aforesaid.

2.1 granting the Applicant leave to institute action against UMD and UCS out of the above Honourable Court by Edictal Citation in the form of an Intendit, substantially in accordance with annex "PS 8" to the Founding Affidavit, and supporting documents ("the Action"), for an Order :

2.1.1 declaring that the written agreement entered into between the Applicants and UMD and UCS respectively on 1 April 2014 ("the User Agreement"), a copy of which is attached to the Founding Affidavit and Marked "PS 4A", is extant, operative and of full force and effect;

2.1.2 that UMD and UCS perform all their obligations towards the Applicants under the User Agreement as and when they fall to be performed in terms thereof;

2.1.3 for further, other or alternative relief.

3.1 that the Intendit be served upon UMD, UCS, as well as upon PLAYBOY ENTERPRISES INCORPORATED, respectively by a copy thereof being delivered to an employee of each of them respectively, apparently over the age of 16 years, at the following addresses, namely

3.1.1 UMD at 1901 Avenue of the Stars, Suite #470, Los Angeles, California, CA 90067, United States of America;

3.1.2 UCS at 1901 Avenue of the Stars, Suite #470, Los Angeles, California 90067, United States of America;

3.1.3 PLAYBOY INTERNATIONAL INCORPORATED at 9346 Civic Centre Drive # 200, Beverly Hills, California, 90210, United States of America;

3.2 that the aforesaid service be effected by any person in California, United States of America: -

3.2.1 who is, according to a certificate of :-

3.2.1.1 the head of the South African diplomatic or consular mission or any South African foreign service officer grade VII; or

3.2.1.2 any foreign diplomatic or consular officer attending to the service of process or documents on behalf of the Republic of South Africa in the United States of America; or

3.2.1.3 any diplomatic or consular officer of the Republic of South Africa serving in the United States of America; or

3.2.1.4 any official signing as or on behalf of the head of the department dealing with the administration of justice in the United States of America, authorised under the law of the United States of America to serve the same;

3.2.2 referred to in 3.2.1.1 or 3.2.1.2 if the law of the United States of America permits him to serve the same, or if there is no law in the United States of America prohibiting such service and the United States of American authorities have not interposed any objection thereto;

3.2.3 who is an Attorney, Lawyer, Notary Public or other legal practitioner who is under the law of the United States of America authorised to serve process of court or documents;

3.3 granting such other directions as to service of the Application as this Honourable Court might deem meet;

4. that UMD, UCS and PLAYBOY INTERNATIONAL INCORPORATED each be ordered to file a Notice of Intention to Oppose the Action within thirty (30) days of the service thereof upon it, if any;

5. that the costs of this application be costs in the cause of the Action.

[9] The applicants then launched the present application for the reconsideration and setting aside of this order on an urgent basis which was opposed and argued before me on 18 February 2016.

[10] Before dealing with the merits of the application, I deem it expedient to deal with the provisions and purpose of Rule 6(12)(c).

Purpose of Rule 6(12)(c)

[11] Rule 6(12)(c) permits a party against whom an order was granted in their absence in an urgent application, to set the matter down by notice for reconsideration by the court.

[12] The dominant purpose of Rule 6(12)(c) is to afford an aggrieved party a mechanism to redress imbalances in, and injustices and oppression flowing from, an order being granted in such circumstances.¹ In any event, it is not disputed between the parties that even in terms of the common law, a party has a right to make an application for the setting aside of an order for attachment to found or confirm jurisdiction, which the court granted on an *ex parte* basis against such party².

The Contentions of the Parties

[13] The applicants contend that the granting of the order by Balton J on 22 December 2015 was wrong in law for three fundamental reasons. Firstly, South African law does not apply to disputes arising between the parties from the Distribution

¹ *National Director of Public Prosecutions v Braun and Another* 2007 (1) SA 189 (C) para 23; see also *Industrial Development Corporation of South Africa v Sooliman and Others* 2013 (5) SA 603 (GSI) para 10; *Basil Read (Pty) Ltd v Nedbank Ltd and Another* 2012 (6) SA 514 (GSI) para 37.

² *Republica Popular de Mocambique v Main Spares Acc (Pty) Ltd* 1986 (4) SA 927 (W); *Elseint (Pty Ltd v Mobile Medical Scanners (Pty) Ltd* 1986 940 SA 552 (W)

Agreement as clause 18(g) of the Distribution Agreement, which was annexed to the respondents' founding papers in their urgent application, ousts the South African courts' jurisdiction. Secondly, the relief sought in the intended action is not of a kind in respect of which an order for attachment to found or confirm jurisdiction can be sought. Thirdly, the "property" which has been attached is not susceptible to an attachment order as this "property" is merely personal contractual rights and do not constitute rights to or in property where execution can be levied in satisfaction of a judgment. The applicants further contend that the order is overly broad and unreasonable and if enforced will have the effect of preventing the applicants from conducting business in South Africa.

[14] Counsel for the applicants Mr *K W Luderitz* SC in oral argument contended that the respondents had not disclosed to the court when the urgent *ex parte* application was sought before Balton J, that clause 18(g) of the agreement entered into between the parties ousted the jurisdiction of this court, and that litigation between the parties is already proceeding in the Californian courts. Summons was issued out of the Californian court in September 2015 and that the matter has been transferred to the Federal Supreme Court. He argued on that basis alone the order should be set aside.

[15] The respondents, in a "provisional" answering affidavit which is a partial reply to the allegations in the founding affidavit, have raised points regarding the lack of urgency of the present application and the lack of authority filed in the notice in terms of Rule 7(1). In doing so, the respondents have not seriously contested the applicants'

assertions that there is no basis in law for the order to stand except to contend that clause 18(g) of the distribution agreement does not oust the jurisdiction of the South African courts.

[16] Counsel for the respondents Mr *R B G Choudree* SC contended that all the facts were disclosed to the Judge at the time the *ex parte* application was launched. Further, that the agreement was part of the papers that were before Balton J when the order was granted. At the time the initial application was launched, the respondents were not aware that summons had been issued out of the California Court sometime in September 2015.

[17] Mr *Choudree* argued that the applicants' assertion that the South African court's jurisdiction is ousted by clause 18(g) of the distribution agreement was not pleaded by the applicants in their founding affidavit and therefore it is not competent for them to make such submissions in their heads of argument. Further that clause 18(g) at most might have the effect of requiring this court to apply Californian law.

[18] Mr *Luderitz* contended that the respondents had the duty to draw the Judge's attention to clause 18(g) of the agreement when they initially sought the attachment order. Further, there is no mention in the respondents' founding affidavit that at most clause 18(g) had the effect of only requiring the South African courts to apply

Californian law. Moreover, it was the duty of the respondents at the *ex parte* application to disclose this to the Judge who dealt with the matter and granted the order.

[19] The Distribution Agreement that was attached to the founding affidavit of Prasanth Seevnanarayan, the manager of both the respondents, in the *ex parte* application is a lengthy document comprising 17 pages. It sets out the terms and conditions of both parties. For the purpose of this judgment there is no need for its incorporation in its entirety as the only contentious clause is found in clause 18(g).

[20] Clause 18(g) of the agreement is titled 'the governing law and consent to the personal jurisdiction'. The clause stipulates that:

"The agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California and that the distributors have agreed to submit to the jurisdiction of courts located in Los Angeles County, California, to the venue therein and waives personal service of process upon the distributor."

A careful analysis of this Clause clearly demonstrates that the respondents consented to the jurisdiction of the courts located in California.

Non-Disclosure

[21] In an *ex parte* application for interim relief the applicant must disclose all material facts, which could influence the court to grant or refuse the relief sought. Failure to comply with this rule can have serious consequences. The utmost good faith must be shown by litigants making *ex parte* applications in placing material facts before the court. If an order has been granted upon an *ex parte* application and it appears that material facts have been kept back, whether willfully and *mala fide* or negligently, which might have influenced the decision of the court whether to make an order or not, the court has a discretion to set the order aside with costs on the ground of non-disclosure.³

[22] The urgent court sometimes has to decide these matters on the basis of commercial urgency, being deprived of the benefit and advantages of argument from the party against whom the order is sought. Had the applicants been given an opportunity to answer the allegations in the respondents' founding papers, the Judge would have been better placed to arrive at a decision *au fait* with all the facts. It is doubtful whether the Judge would have made an order in the terms that she did.

[23] In the present matter, it was incumbent on the respondents to disclose to Balton J that litigation proceedings had already been instituted in the Californian Court of the United States of America between the parties, albeit of a somewhat different nature. It should also have been brought to the attention of the Judge that the agreement that the respondents relied upon in all likelihood provides for Californian law to apply and oust

³ *Schlesinger v Schlesinger* 1979 (4) SA 342 (W)

the jurisdiction of the South African Courts. They should also have included in their founding papers an expert's report that Californian law is no different from South African law. These facts are material.⁴ Why this was not disclosed has not been explained. In my view the respondents were duty bound to have disclosed this. In the circumstances I believe that on this basis alone the order should be set aside.

[24] In the event that I am wrong, it is necessary for the purposes of this judgment to examine the order that was granted and the founding papers of the respondents in that application to determine whether the court order should be set aside or even amended.

[25] The purpose of attachment *ad fundandam* is to create jurisdiction where no other ground of jurisdiction arises at all and to provide an asset in respect of which execution can be levied in the event of judgment being granted in favour of the plaintiff *incola*. The purpose of an attachment of property *ad confirmandam jurisdictionem* is to confirm a jurisdiction which already exists and furnish an asset in respect of which execution can be levied in the event of judgment in favour of the plaintiff⁵.

[26] In order to determine if an attachment to found or confirm jurisdiction should be granted, regard must not only be had to the nature of the property sought to be

⁴ *National Director of Public Prosecutions v Basson* 2001 (2) SACR 712 (SCA). The court accepted the principles enunciated in *Schlesinger v Schlesinger* and appeared to imply the facts not disclosed must be material facts.

⁵ *MT Tigr : Owners of the MT Tigr and Another v Transnet Ltd t/a Portnet (Bouygues Offshore SA and Another Intervening)* 1998 (3) SA 861 (SCA) 870 B – D; *Simon NO v Air Operation of Europe AB and Others* 1999 (1) SA 217 (SCA) 230 D - E

attached, but also the type of judgment the *incola* intends to pursue against the *peregrinus*.

[27] Historically, applications for attachment to confirm jurisdiction for claims for the enforcement of an agreement which was not a claim sounding in money were not granted. Our law does recognize such attachment in cases of claims involving property or real rights to property, including incorporeals. However, it does not have application to matrimonial causes or actions *in personam* which do not have a monetary or property component.⁶

[28] The relief to be pursued by the respondents in the action and for which the order for service by way of edictal citation was sought, amounts to specific performance in terms of the distribution agreement. An order to this effect is not executable in nature. It has no monetary component and is declaratory in nature.

[29] The order provides for the attachment of the applicants' rights to exclusively use the Playboy trademark and the rabbit head design in South Africa and to exclusively advertise, market, offer, sell and distribute the items referred to directly or indirectly.

⁶ *Simon NO v Air Operation of Europe AB and Others* 1999 (1) SA 217 (SCA); *Di Bona v Di Bona* 1993 (2) SA 635

[30] However, a conspectus of all the evidence including the affidavits, the agreement and other documents attached to the papers shows that the first applicant is not the proprietors of the trademarks of Playboy and the rabbit head design. It is the third respondent in the main action, Playboy Enterprises International Inc (Playboy International) an American company, that is the proprietor therefor in *inter alia* South Africa.

[31] The applicants' rights to use the trademark are thus personal and contractual in nature. The first applicant has an agreement with Playboy International to exclusively use the trademark in connection with the design, manufacture, advertising, provision, sale and distribution by the first applicant of condoms in *inter alia* South Africa. The second applicant was granted the exclusive right to use the trademark in connection with the design, advertising, distribution and sale of non-medical personal lubricants, smoke-free and tobacco-free electronic cigarettes and cigars and mint products in *inter alia* South Africa.

[32] The parties concluded a written agreement in terms of which the applicants granted to the respondents *inter alia* distribution rights in respect of the products aforementioned (the distribution agreement).

[33] The applicants cancelled the distribution agreement on 22 September 2015 contending that the respondents breached the terms of the distribution agreement. This contention is disputed by the respondents. In the application for the attachment order, the respondents alleged that the applicants' termination of the distribution agreement constituted a repudiation of the agreement, which repudiation was rejected.

[34] An order made against the applicants, who reside in California, to render specific performance in terms of the distribution agreements, will be ineffective and is not rendered effective by attaching any rights of the applicants. Furthermore, the property to be attached must have some saleable value.⁷

[35] As stated the applicants are not the proprietor in South Africa of the trademarks, but merely hold contractual rights to use the trademarks. Moreover, these contractual rights have no saleable value and cannot be sold to a third party without the consent of Playboy International.

[36] The nature of the rights which have been authorised for attachment, are not of the kind in regard to which attachment to found or confirm jurisdiction can be granted.

⁷ *Thermo Radiant Oven Sales (Pty) Ltd v Nelspruit Bakeries (Pty) Ltd* 1969 (2) SA 295 (A)

The attachment order that was granted on an *ex parte* basis is provisional in nature only. The applicant has shown good cause why the order should be set aside.

[37] In reconsidering an order in terms of Rule 6(12)(c) this court has a wide discretion and may take into consideration factors such as the imbalance, injustice and oppression resulting from an order granted on an urgent basis in the absence of a party.

[38] The effect of the order granted is not just the attachment of rights of the applicants to or in property, but a wide prohibition on the applicants' ability to do business in South Africa. Given the wide ambit of the order, coupled to the fact that the provisions of clause 18(g) to the distribution agreement was not brought to the Judge's attention when the matter was brought before her on an *ex parte* basis, I am of the view that on reconsideration of all the facts the order should be set aside, otherwise it will clearly amount to an injustice. It would not only cause undue oppression for the applicants but would condone the behavior of the respondents in not disclosing in a frank and full manner which is required when applications are brought on an *ex parte* basis.

[39] This view is strengthened by the fact that the respondents themselves have indicated by notice that they intend to amend the Intendit. To my mind this is an attempt to bolster their initial application in order to prove that the cause of action they now

intend to pursue will be one sounding in money or property which is required for attachment to confirm jurisdiction.

[40] In regard to the points referred to by the respondents regarding lack of authority and lack of urgency, in the present application the deponent to the founding affidavit in the *ex parte* application, Judy Kawal, has been approved by one Jimmy Esebag CEO and Chairman of both the applicants with authority to depose to the affidavit and to instruct attorneys to act on behalf of the applicants. Judy Kawal is the Vice President of the business and Legal Officer of both the applicants.

[41] The argument by the respondents is nothing more than an attempt to cloud the issues. Firstly, Kawal has been appointed by the Chairman of both applicants, she in turn has instructed the firm of attorneys Adams & Adams to act on behalf of the applicants. Proof of such power of authority and power of attorney is attached to the applicants' papers. This point concerning lack of authority cannot be sustained especially in the light of the fact that we are dealing with proceedings in terms of Rule 6(12)(c), and the fact that her evidence in this respect stands uncontradicted.

[42] The same applies in respect of the argument of lack of urgency. As stated, the purpose of Rule 6(12)(c) is to allow parties who were not present when an urgent *ex parte* order is made, to approach the court for reconsideration of the order and place

facts before the court. To permit the respondents to themselves now claim lack of urgency on the part of the applicants would undermine *audi alterem partem* which Rule 6(12)(c) gives effect to.

[43] I must thank counsel on both sides in this matter. Due to the urgent nature of the application I have borrowed substantially from their heads of argument and the authorities they have referred me to for the preparation of this judgment in the short period of time in which I have prepare it.

[44] Having considered the foregoing, I am of the view that the urgent interim relief granted by Balton J on 22 December 2015 must be reconsidered and set aside in its entirety.

Costs

[45] Both parties have complained about the behavior of their opponents and have sought punitive cost orders in the notice of motion and during oral argument by counsel in court.

[46] The application to found or confirm jurisdiction was ill-considered. There was no basis for the respondents to have argued that it was competent for this court to order the attachment given the type of relief the respondents intend to pursue against applicants or the type of rights which are the subject matter of the attachment.

[47] Furthermore, the conduct of the respondents needs to be examined in this regard. After the applicants had launched this application, which they were entitled to do in terms of Rule 6(12)(c), the respondents caused various notices to be served on the applicants, such as a notice in terms of Rule 7 as aforementioned and a Rule 47(1) notice calling upon the applicants to provide security for costs in respect of this application.

[48] In the circumstances, the applicants should not carry the burden of paying for the costs of legal proceedings to set aside the order that was granted in such circumstances. The respondents' conduct in failing to make a full and frank disclosure at the outset as well as their obstructive conduct by raising points *in limine* such as the lack of urgency and filing notices in terms of Rule 7 and Rule 47(1) justifies the punitive cost order being sought by the applicants.

[49] Accordingly I make the following order.

1. The order of this court, dated 22 December 2015 under case number 13398/2015 be set aside.
2. That the respondents pay the costs of this application including the costs of two counsel on the scale of attorney and client.

MARKS AJ

Date of hearing : 18th February 2016

Date of judgment : 4th March 2016

Counsel for the Applicants : K W Luderitz SC with H P Pretorius (instructed by Adams & Adams

Counsel for the Respondents : R B G Choudree SC with M Manikam (instructed by