

MASSACHUSETTS DISTRICT COURT
DISTRICT OF MASSACHUSETTS

**PHILIP MORRIS INC.; R.J. REYNOLDS TOBACCO
CO.; BROWN & WILLIAMSON TOBACCO CORP.;**
**and LORILLARD
TOBACCO CO.,**
Plaintiffs,

v.

**L. SCOTT HARSHBARGER, Attorney General,
Commonwealth of Massachusetts; and HOWARD K.
KOH, M.D., Massachusetts Commissioner
of Public Health,**
Defendants.

**UNITED STATES TOBACCO COMPANY; BROWN
& WILLIAMSON TOBACCO CORPORATION;
CONWOOD COMPANY, L.P.; TOBACCO
COMPANY; and SWISHER INTERNATIONAL, INC.,**

v.

**L. SCOTT HARSHARGER, Attorney General,
Commonwealth of Massachusetts; and HOWARD K.
KOH, M.D., Massachusetts Commissioner
of Public Health,**
Defendants.

Civil Action No. 11599-GAO

December 10, 1997

MEMORANDUM AND ORDER

O'TOOLE, D.J.

The plaintiffs in these companion cases are manufacturers of cigarettes and smokeless tobacco products. Under a recently enacted Massachusetts statute, they will be required to furnish to the Commonwealth's Department of Public Health (the "Department") a list of any ingredients added to tobacco products sold in Massachusetts. The required lists must rank the added constituents "in descending order according to weight, measure, or numerical count" for each product brand. Mass. Gen. L. Ch. 94, § 307B (a) ("Section 307B"). The ingredient lists

submitted will be classified as "public records," and thus available for inspection and copying under the Massachusetts public records law. Mass. Gen. L. Ch. 66, § 10, if the Department determines that "there is a reasonable scientific basis for concluding that the availability of such information could reduce risks to public health" and if the Attorney General "advises that such disclosure would not constitute an unconstitutional taking" of the plaintiffs, property. Section 307B (b) .

The plaintiffs claim that the public disclosure of such ingredient lists, by brand and in the detail contemplated by the statute, would reveal to competitors the secret flavor recipes for the plaintiffs' products, thus effectively destroying valuable trade secrets. They have brought these actions for declaratory and injunctive relief contending that the defendants, enforcement of the statute would violate the United States Constitution in multiple respects.¹ First, the plaintiffs assert that the public disclosure of their trade secrets in the manner authorized by the statute would amount to a "taking" of their property without just compensation, in violation of the final clause of the Fifth Amendment, U.S. Const. amend. V, made applicable to the States by the fourteenth Amendment, *id.*, amend. XIV, § 1. They further assert that the Massachusetts statute imposes an unjustified burden upon interstate commerce, offending the Commerce Clause, *id.*, art. I, § 8. They also argue that the statute denies them procedural due process in violation of the guaranty contained in the Fourteenth Amendment. *Id.*, amend. XIV, § 1.

The plaintiffs have moved for a preliminary injunction pursuant to Fed. R. Civ. P. 65, restraining the defendants from enforcing the questioned statute until their constitutional claims can be adjudicated. They urge that if no injunction is granted, they will have to choose between alternatives that are equally, albeit differently, harmful. The first alternative would be for them to comply with the statute and deliver to the Department their valuable trade secrets, with the high likelihood that the Department will act to make the information public, destroying the economic value of the secrets. Once the information becomes public, it can never again be secret, and the resulting competitive injury will be permanent, even if the plaintiffs, constitutional objections should later be sustained. The second alternative would be for them to decline to comply with the statutory directive and refuse to furnish the information to the Department.

¹ A claim that Section 307B was preempted by federal law was earlier rejected by this Court, and that ruling was affirmed on appeal. *Philip Morris, Inc. v. Harshbarger*, 122 F.3d 58 (1st Cir. 1997).

That course would almost certainly lead to enforcement proceedings, with, the prospect of the imposition of significant penalties for the contumacy.

The suggested dilemma is not a new one. Early in this century, the Supreme Court considered a similar dilemma and decided that the appropriate federal judicial response in such a case should be to enjoin the enforcement of the statute until a full adjudication on the merits could be had. *Ex parte Young*, 209 U.S. 123, 145-45 (1908). In *Young*, a railroad had challenged the constitutionality of certain provisions of Minnesota law regulating rates. The court held that the railroad was entitled to an injunction against the enforcement of the rate regulations pending adjudication because there was no other acceptable way to challenge their validity. If the railroad were to comply with the rates during the time it would take to get an adjudication, "several years might elapse before there was a final determination of the question, and, if it should be determined that the law was invalid, the property of the company would have been taken during that time without due process of law, and there would be no possibility of its recovery." *Id.* at 163.²

On the other hand, if the railroad were to disobey the act, the company and its employees would be exposed to substantial criminal penalties. Because the company's officers and employees "could not be expected to disobey any of the provisions of the acts," at the risk of such substantial penalties should their challenge to the law be rejected, the practical affect would be to deny the company a realistic opportunity for judicial review of the Statute. *Id.* at 146. "[T]o impose upon a party interested the burden of obtaining a judicial decision of such a question . . . only upon the condition that, if unsuccessful, he must suffer imprisonment and pay fines, as provided in these acts, is, in affect, to close up all approaches to the courts, and thus prevent any hearing upon the question. . . ." *Id.* at 148. The Court held that both alternatives were unacceptable, and the company was thus without an adequate remedy at law, justifying injunctive relief against the enforcement of the challenged acts until the merits of the claim could be determined. *Id.* at 165.

The potential sanctions that would have been risked in *Young* were criminal penalties. That is not the case in the present controversy, but the difference is not important. First, the penalties that might be imposed upon a finding of contempt for disobedience of an order of compliance, even if strictly civil, could be

very like criminal penalties in effect. Substantial fines, and even physical incarceration, are remedies for civil contempt commonly imposed in order to compel compliance with court orders. Moreover, the Supreme Court has not limited the principle of *Young* to cases involving criminal penalties. In *Morales v. Trans World Airlines, Inc.* 504 U.S. 374, 380-81 (1992), the Court invoked *Ex Parte Young* and approved the entry of an injunction against the enforcement of regulations promulgated by various state Attorneys General, including the Attorney General of Massachusetts, where the prospective Penalties were civil.

In this Circuit, whether to grant an injunction in a particular case depends on an evaluation of four criteria. "The Court must find: (1) that plaintiff will suffer irreparable injury if the injunction is not granted; (2) that such injury outweighs any harm which granting injunctive relief would inflict on the defendant; (3) that plaintiff has exhibited a likelihood of success on the merits; and (4) that the public interest will not be adversely affected by the granting of the injunction." *Planned Parenthood League of Mass. v. Bellotti*, 641 F.2d 1006, 1009 (1st Cir. 1981) (citation and internal quotation marks omitted) .

The first criterion is established by application of *Young's* holding that the unavailability of an adequate opportunity to challenge the law before being subjected to it amounts to irreparable harm. Indeed, one of the most common reasons for the issuance of a preliminary injunction is to preserve the status quo pending a full adjudication of the controversy. *CCM Cable Rep., Inc. v. Ocean-Coast Properties, Inc.*, 48 F.3d 618, 620 (1st Cir. 1995) ("The purpose of a preliminary injunction is to preserve the status quo, freezing an existing situation so as to permit the trial court, upon full adjudication of the case's merits, more effectively to remedy discerned wrongs."). *See also Narragansett Indian Tribe v. Guilbert*, 934 F.2d 4, 5 (1st Cir. 1991).

Planned Parenthood itself illustrates the point in a strikingly similar context. The plaintiffs in that case, like the plaintiffs here, sued the Massachusetts Attorney General and the Commissioner of the Department of Public Health, among others, seeking declaratory and injunctive relief against the enforcement of what they asserted was an unconstitutional statute. The District Court declined to grant the injunction, and the plaintiffs appealed. The Court of Appeals stayed the enforcement of the statute pending its consideration of the appeal and ultimately reversed the denial of the requested preliminary injunction as to certain aspects of the statute. *Planned Parenthood*, 641 F.2d at 1023. The focus of the Court's analysis was on the merits of the constitutional claims.

²Although the Court referred to property being "taken," its analysis was based on the Due Process Clause of the Fourteenth Amendment, not the Takings Clause of the Fifth Amendment.

It concluded that a showing of a likelihood success on the merits itself warranted the conclusion that irreparable harm was also likely. *Id.*

The evaluation of that critical criterion -- likelihood of success on the merits -- is customarily a difficult one because it is essentially a forecast. It is usually made on the basis of a record substantially less detailed and nuanced than the record that could be expected to be developed after a full trial. However, on a motion for a preliminary injunction, only a preliminary or provisional assessment need be made. It is not necessary to the judgment whether to grant a preliminary injunction that the court be able to "predict the eventual outcome on the merits with absolute assurance." *Ross-Simons of Warwick, Inc. v. Baccarat, Inc.*, 102 F.3d 12, 16 (1st Cir. 1996).

The assessment is made the more difficult in these cases because the factual circumstances are, compared with the available caselaw, unusual. There is no case "directly on point." The parties differ vigorously about what the most analogous precedents are and what they mean when applied in the present context. Moreover, the plaintiff's principal arguments -- based on the theories of "regulatory takings" and the "Dormant Commerce Clause" -- involve constitutional doctrines that are expressed in subtle distinctions and relative estimations of degree.

On balance, this Court concludes that the plaintiffs have shown a sufficient likelihood of success for their claim that the statute, as it is written, authorizes an unconstitutional taking without just compensation that a preliminary injunction effectuating the *Ex Parte Young* policy is justified.

The principles that guide the analysis are these: A State may not take private property for public use without paying "just compensation" to the person deprived of the property. U.S. Const. amend. V, made applicable to the states through amendment XIV. See *Dolan v. City of Tigard*, 512 U.S. 374, 383-84 (1994). The Takings Clause of the Fifth Amendment "conditions the otherwise unrestrained power of the sovereign to expropriate, without compensation, whatever it needs. *United States v. General Motors Corp.*, 323 U.S. 373, 377 (1945). Condemnation of land by the power of eminent domain is the commonest example of the State's "taking" of private property to accomplish a public good. See generally, Mass. Gen. L. ch. 79.

The taking of property means more than the transfer of ownership to the State. In an appropriate case, it can mean the destruction of a private property interest for a public good. The Supreme Court has said:

"In its primary meaning, the term 'taken' would seem to signify something more than destruction, for it might well be claimed that one does not take what he destroys. But the construction of the phrase has not been so narrow. The courts have held that the deprivation of the former owner rather than the accretion of a right or interest to the sovereign constitutes the taking. Governmental action short of acquisition of title or occupancy has been held, if its effects are so complete as to deprive the owner of all or most of his interest in the subject matter, to amount to a taking."

General Motors, 323 U.S. at 378.

Beyond the most elementary cases, the question whether a particular governmental action amounts to a "taking" within the scope of the Fifth Amendment's "just compensation" clause "has proved to be a problem of considerable difficulty." *Penn Central Trans. Co. v. New York*, 438 U.S. 104, 123 (1978). The problem is more acute where the "taking" is said to have occurred as a result of governmental regulation under the police power. See *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 1014-15 (1992). The Supreme Court has acknowledged that it "has been unable to develop any 'set formula,' for determining when 'justice and fairness' require that economic injuries caused by public action be compensated by the government, rather than remain disproportionately concentrated on a few persons. *Penn Central*, 438 U.S. at 124. Answering the question requires an "essentially ad hoc, factual inquir[y]." *Id.*

The taking of real property, whether directly by physical invasion or expropriation or indirectly by the effect of regulation, may be the paradigm, but it is clear that the State's taking of personal property, including intangible personal property, is also within the scope of the Takings Clause. Specifically, the intangible personal property interest in business trade secrets is protected by the "just compensation" requirement of the Fifth Amendment. *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-04 (1984).

Nevertheless, it is indisputable that the State has broad power to regulate the conduct at business in the public interest, and not every regulation that diminishes the economic value of a particular property right entitles the owner to compensation. As Justice Holmes observed, "Government hardly could go on if to some extent values incident to property could not be diminished without paying for every such change in

the general law." *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 413 (1922). For example, land use regulations may often reduce the market value of property or defeat the owner's expectations of a profitable use. Even so, such a regulation "does not effect a taking if it 'substantially advance[s] legitimate state interests' and does not 'den[y] an owner economically viable use of his land.'" 512 U.S. at 385 (quoting *Agins v. Tiburon*, 447 U.S. 255, 260 (1980)).

However, at least in the case of real property, a taking *does* occur if a governmental regulation "eliminate[s] all economically valuable use" of the land. *Lucas*, 505 U.S. at 1028. This is not necessarily true in case of personal property, because of "the State's traditionally high degree of control over commercial dealings." For example, the Government may forbid the sale of certain items of personal property without being liable to pay compensation for the loss of economic value to the owners. *Andrus v. Allard*, 444 U.S. 51, 66-67 (1979) (upholding regulations that prohibited the sale of eagle feathers). On the other hand, it cannot be said categorically that a regulation that eliminated all economic value in intangible personal property could never amount to a taking requiring compensation. For example, the Government has been held to have made a compensable taking when it caused the extinguishment of valid mechanics' liens. *Armstrong v. United States*, 364 U.S. 40, 48 (1960) ("The total destruction by the Government of all value of these liens, which constitute compensable property, has every possible element of a Fifth Amendment 'taking' and is not a mere 'consequential incidence' of a valid regulatory measure.").

A trade secret is destroyed if it is disclosed. Whether the compelled disclosure amounts to a "taking" depends on several factors, including the "character of the governmental action, its economic impact, and its interference with reasonable investment-backed expectations." *Monsanto*, 467 U.S. at 1005 (internal quotation marks omitted). In the present cases, these factors do not all point in the same direction. The character of the governmental action here is the exercise of the police power in the interest of the public health and welfare. That is a traditionally broad power, and economic actors must always accept that their interests may be required to yield, even totally, to the appropriate exercise of that power. Broad as it is, however, the State's authority to exercise the police power without payment of compensation is not limitless. Again, Justice Holmes crystallized the point: "[W]hile property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking." *Pennsylvania Coal*, 260 U.S. at 415. See also *Lucas*, 505 U.S. at 1015. There must, for example, be a sufficiently rational connection between the means

through which the police power is exercised and the legitimate end sought to be achieved. *Dolan*, 512 U.S. at 386; *Nollan v. California Coastal Comm'n*, 483 U.S. 825, 837 (1987). In addition, the harm caused to private interests by the state regulation must be roughly proportionate to the public interest sought to be achieved. *Dolan*, 512 U.S. at 391. In this case, there is a substantial question whether the destruction of the plaintiffs' secrets may be a harm disproportionate to the marginal benefit in increased public awareness of the dangers of tobacco use that could be anticipated from the publication of the ingredient lists.

The other considerations identified by *Monsanto* -- the economic impact of the regulation and its interference with investment-backed expectations -- point in the plaintiffs' favor. The record before the court supports their claims to have made substantial investments in the development and protection of the "flavor recipes" which they say are their secrets. See *Houghton Aff.* ¶ 12; *Oelschlager Aff.* ¶ 12. The record also supports the claim that there would be a substantial loss of competitive advantage if the secrets were revealed. See *Houghton Aff.* ¶ 6; *Ingram Aff.* ¶ 6-7. Where those factors exist, *Monsanto* instructs that the trade secrets may not be taken -- that is, destroyed -- without compensation. *Monsanto*, 467 U.S. at 1010-13.³

The defendants argue that even if the statute permits a taking of the plaintiffs' secrets, it is presently uncertain whether such a taking will actually occur, so there is no imminent harm threatened that warrants an injunction. The argument has two strands. First, the defendants point out that the lists of ingredients become "public records" only if the Department determines that there is a "reasonable scientific basis for concluding" that their disclosure "could reduce risks to public health" and if the Attorney General is of the opinion that the disclosure would not constitute an unconstitutional taking. Section 307B(b). The threshold for the former determination seems so low that there is a legitimate question whether it sets a real standard at all. It would be hard to quarrel with the general hypothetical proposition that informing consumers about what is in the tobacco products they ingest or inhale "could" reduce the risk to their, and consequently the public health. The condition that the Attorney General give his advice about whether disclosure would be an unconstitutional taking is equally evanescent. The Attorney General has

³Section § 307B makes no provision for the payment of compensation, for the disclosure of the plaintiffs' secrets. Thus, any "taking" would amount to an uncompensated one. The disputed question is whether the statute effects a "taking."

forcefully argued in this litigation that the statute does not effect an unconstitutional taking. That is more than just a hint about what he might opine in response to an official inquiry from the Department.

Abstract constructions aside, the record indicates that those in the Department responsible for the administration of the statute have announced their intention to disclose the ingredient lists as broadly as possible. See, e.g., *Remes Aff. Exs. A, B, C*. The Court of Appeals has noticed this intention. *Philip Morris, Inc. v. Harshbarger*, 122 F.3d 58, 62 (1st Cir. 1997) ("Despite the apparent limitations on the public health department's ability to disclose reported information, the record evidence strongly indicates that Massachusetts officials intend to publicize the information. . . . For the purposes at this case, we assume that the department will make the information publicly available at the first legal and practical opportunity."). In this circumstance, the prerequisites to disclosure appear only formal. See *Regional Rail Reorganization Act Cases*, 419 U.S. 102, 143-45 (1974). The plaintiffs have good reason to expect to prove, as the Court of Appeals assumed, that the disclosure of the ingredient lists is a practical inevitability.

There is a second aspect to the defendants' argument that harm to the Plaintiff is uncertain. Officials in the Department have recently offered interpretations of the statute, and the regulations that have formally been adopted to implement it, that would offer the plaintiffs the opportunity to "pull back" their ingredient lists in the event that the Department should make a preliminary determination to disclose them. That opportunity, it is suggested, would avoid the *Ex Parte Young* dilemma because, by the time events had played out, the merits of the case would probably have been resolved. The argument might be persuasive if the protections the defendants describe were written into the statute or the formally promulgated regulations. Without assurance that the lately offered "interpretations" are authoritative and binding, however, they must be disregarded for present purposes. The question is not simply what the Department's current view or policy might be. Moreover, Massachusetts law liberally provides citizens the right to inspect "public records," and the state courts can be called upon to determine whether any given matter fits that definition so that it must be disclosed, the agency's view to the contrary notwithstanding. See, e.g., *Gobe Newspaper Co. v. Police Comm'r of Boston*, 648 N.W. 419, 424 (Mass. 1995).

The defendants also argue that the plaintiffs can protect their secrets fully simply by going away. The statute requires them to file ingredient reports only

if they sell their products in Massachusetts. If they cease to sell their products here, they have no obligation to file the reports and their ingredients will stay secret. While the suggestion is certainly accurate as a practical observation, it is unsatisfactory as a principle of constitutional law.

It is true, of course, that when a company undertakes to do business in a given State, it implicitly accepts the general right of the State to impose reasonable regulations on the conduct of that business. and if the company should object to the regulation as burdensome, it can choose to avoid the burden by deciding not to do business there. The defendants' argument is somewhat different, however, because they seek to employ that general proposition - - granting generous leeway to the State's police power - - to insulate this statute from effective review. Their argument is this: A person faced with an unconstitutional taking of personal property can withdraw the threatened property from the State's jurisdiction. No taking will then occur. Thus, regardless of the character or validity of the State's action, no claim of a constitutional violation can be pressed.

Rather than a reason for denying relief, this argument actually illustrates why the doctrine of *Ex Parte Young* calls for an injunction here. The defendants' suggestion is simply a third unacceptable alternative, in the *Young* analysis, to up-front, pre-harm adjudication of the constitutional claims. As the plaintiffs put it, the defendants' argument simply transforms the *Young* "dilemma" into a "trilemma." See Plfs' Resp. to Defs' Supplem. Filing at 2. If the plaintiffs were to follow the defendants' suggestion and withdraw from the opportunity to do business in Massachusetts, they would likely lose their standing, but for *Young*, to challenge the statute's constitutionality. Accepting the defendants' argument, then, would mean that a State could attempt to coerce businesses -- at least out-of-state businesses -- to succumb without protest to unconstitutional regulations unless they were willing to forego doing business in the state entirely, because any challenge could always be disposed of by the invitation to "love it or leave it." They need not now be explored, but there are apparent implications for the Commerce Clause analysis in this effect.

In sum, this Court concludes that the plaintiffs have shown a sufficient likelihood of success on at least one of their constitutional claims, and that having done so, they have satisfied the other criteria for the grant of a preliminary injunction. *Planned Parenthood*, 641 F.2d at 1023.

The plaintiffs' challenge to the statute is

limited to the requirement that they supply ingredient information in such form and detail as to risk the disclosure of trade secrets. The statute also requires reports to be filed supplying "nicotine yield ratings." The two requirements are easily separable, and there appears no reason why the plaintiffs should not comply with that part of the statute.

Accordingly, the plaintiffs' motion for a preliminary injunction is GRANTED in part, and an order shall enter restraining the defendants, and their agents, attorneys, and employees, from taking any steps to enforce the ingredient-reporting requirements of Mass. Gen. L. ch. 94, § 307B, pending a trial on the merits of this action or further Order of the Court.

For the reasons set forth in the memorandum filed this day, it is hereby ordered that:

The defendants L. Scott Harshbarger, Attorney General of the Commonwealth of Massachusetts, and Howard K. Koh, Massachusetts Commissioner of Public Health, their agents and employees, are enjoined from enforcing the ingredient reporting provisions of Mass. Gen. L. ch. 94, § 307B against any manufacturer of cigarettes, snuff or chewing tobacco sold in the Commonwealth of Massachusetts or from treating any such manufacturer as subject in any way to the ingredient reporting provisions of Mass. Gen. L. ch. 94, § 307B, until further Order of the Court.