ROYAL LIQUOR DISTRIBUTORS AND IMPORTERS AND DEALERS' LIQUOR CO.; JOSEPH G. SMITH & SONS, INC.,
Petitioners,
v.
BROWN-FORMAN DISTILLERS CORP.; SOUTHERN COMFORT CORP.; AND B.F. SPIRITS, LTD.,
Respondents.

Initial Decision: March 26, 1982
Final Agency Decision: May 10, 1982

Approved for Publication by the Director of the Division of Alcoholic Beverage Control, John F. Vassallo, Jr.: October 20, 1986

SYNOPSIS

Petitioner, licensed New Jersey wholesales, claimed that respondent’s refusal to continue to permit their distribution of brand-name liquor in the State was discriminatory and thus illegal under N.J.S.A. 33:1-93.6 et seq.

The administrative law judge assigned to the case found that petitioners had for many years been the only licensed alcohol beverage wholesales who were authorized by Southern Comfort Corp. of Missouri to distribute Southern Comfort liquors in New Jersey. In 1979 respondent purchased Southern Comfort Corp. along with its trademarks, labels and assets; later that year, respondents notified petitioner that their distributorship was terminated.

By virtue of a special ruling of the Director of the Division of Alcoholic Beverage Control in which he concluded that N.J.S.A. 33:1-93.6 et seq. placed respondent in the same position for distribution as its predecessor, the administrative law judge concluded that the only remaining issue to be determined was whether the statute as applied was unconstitutional.

Initially, the judge noted that while facial constitutional attacks upon statutes were prohibited in administrative hearings, it would be appropriate to deal with the constitutional argument raised in this case, since a body of law had developed which requires exhaustion of administrative remedies when statutes are claimed unconstitutional as applied.
The judge determined that the statute was neither unreasonable or arbitrary since it related reasonably to the State’s legitimate interest in preventing wholesaler monopolies. Nor was the statute found violative of the contract clause of the Constitution since whatever right respondent might have under that clause was outweighed by the legitimate legislative purpose of the statute. The judge also noted that State’s recognized expansive power to regulate the alcohol beverage control business supported the constitutionality of the statute.

Accordingly, the judge determined that N.J.S.A. 33:1-93.6 was constitutional.

Upon review, the initial decision was adopted by the Director of the Division of Alcoholic Beverage Control.

Edward G. D'Alessandro, Esq., for petitioners Royal Liquor and Importers and Dealers' Liquor Co. (D'Alessandro, Sussman, Jacovino & Dowd, attorneys)
Joseph M. Jacobs, Esq., for petitioner Joseph G. Smith
Alvin Weiss, Esq., for respondent (Riker, Danzig, Scherer & Hyland, attorneys)

LEFELT, ALJ:

NATURE OF CASE

Petitioners, licensed New Jersey wholesalers, claim that respondents' refusal to continue to permit their distribution of Southern Comfort liquor in New Jersey is discriminatory and therefore illegal under N.J.S.A. 33:1-93.6 et seq. Respondents contend that as the new owners of Southern Comfort by virtue of a stock acquisition, they have the right to establish their own group of "authorized" wholesale distributors in New Jersey and were not required to continue the wholesalers who were previously authorized to distribute Southern Comfort in New Jersey. Respondents thus argue that since petitioners were never authorized by respondents, the new owners of Southern Comfort, N.J.S.A. 33:1-93.6 et seq. does not apply. Respondents further contend that if the statute is construed to require them to continue to supply the Southern Comfort brand liquor then the statute is unconstitutional.
THE FACTS

The facts in this case have been stipulated. Accordingly, based on counsel's stipulations, the following facts are found:

Petitioners for many years were duly licensed alcoholic beverage wholesalers who were authorized by the licensed importer, Southern Comfort Corporation of Missouri, to distribute Southern Comfort liquor, a nationally advertised brand, in New Jersey.

On July 20, 1978, respondent Brown-Forman, a Delaware corporate importer, licensed to distribute liquor in New Jersey, obtained an option to purchase the stock of Southern Comfort and on February 12, 1979, respondent exercised this option.

Pursuant to the option, on March 2, 1979, the Missouri Corporation's stock was transferred to a Brown-Forman Delaware subsidiary, International Spirits Corporation, and on March 13, 1979, International Spirits changed its Delaware corporate name to Southern Comfort Corporation. On or before March 15, 1979, International Spirits received from the Missouri Corporation assignments of trademarks, labels and all of the remaining assets.

On April 30, 1979, petitioners who had never disparaged the Southern Comfort brand were notified by respondent, B-F Spirits, Ltd., that their distributorship was terminated, effective May 1, 1979, even though respondent intended to continue other New Jersey wholesalers as distributors. Petitioner Dealers had ordered Southern Comfort liquor from the Southern Comfort Corporation located in Missouri on March 5, 1979 and the deliveries were made on March 22, 1979. Petitioner Royal ordered Southern Comfort liquor from the Southern Comfort Corporation located in Missouri on March 5, April 23, 24 and 26, 1979 and received the liquor thereafter. On March 26, 1979, the Missouri Corporation changed its name and on July 12, 1979, Articles of Liquidation were executed and filed with the Missouri Secretary of State.

PROCEDURAL HISTORY

After being notified that their distributorship would terminate in May, petitioners filed two separate discrimination petitions under N.J.S.A. 33:1-93.6 et seq. The Director of the Division of Alcoholic Beverage Control ordered respondents to show cause on June 20, 1979 why distributions should not continue pending this litigation. Pursuant to a consent order, respondents agreed to supply petitioners with Southern Comfort liquor pending the final determination of this action. Subsequently, on June 26, 1979, respondents answered both
petitions and on August 9, 1979, the Division of Alcoholic Beverage Control transmitted these cases to the Office of Administrative Law for determination as a contested case, pursuant to N.J.S.A. 52:14F-1 et seq. and N.J.S.A. 52:14B-1 et seq. These matters were thereafter consolidated.

After completing a lengthy discovery and motion period, petitioners, Royal and Dealers, on October 5, 1981, moved for summary decision which was denied by substantive order on October 22, 1981 because I concluded that there were at least nine material facts that were either contested or undeveloped at the time of the motion. On October 28, 1981, the Director of the Division of Alcoholic Beverage Control elected to review this order, pursuant to N.J.A.C. 1:1-9.7(c) and on December 1, 1981, the Director issued a Special Ruling modifying the substantive order and substantially circumscribing the proof in this matter. The Director ruled that because of the construction he placed on the statute (see, Special Ruling below) the only material fact was whether the petitioners have the ability to pay. See, N.J.A.C. 13:2-18.1(b). However, respondents do not contend that petitioners are unable to pay; petitioners, Royal and Dealers, preferred their ability to pay; and petitioner Joseph Smith has at all times paid the Southern Comfort Corporation invoices. In short, none of the justifications for “discrimination” listed in N.J.A.C. 13:2-18.1(b)1-10 are urged by any party to this proceeding.

THE SPECIAL RULING

The Director’s Special Ruling stated that:

It would frustrate the legislative intent to conclude that an authorization to distribute a product could be rendered a nullity as a consequence of the sale, transfer, merger or acquisition of business assets relating to brand or product distribution. If permitted, such initiatives could be used as a vehicle to terminate distributors in a scheme which would be in direct and intentional contravention of the statute. Even if the decision to terminate was the result of a business judgment in good faith, the court has previously affirmed the Director’s interpretation that discrimination has occurred. See, American B.D. Co. v. House of Seagrams, Inc., 107 N.J. Super. 264 at 266-67.

I conclude that a successor-in-interest to the rights or privileges of a brand, product or label, is, as far as continued distribution to wholesalers in this State, bound as a supplier to the ‘authorizations’ made by its predecessor. Thus, I find the ‘new’ Southern Comfort Corporation, for purposes of N.J.S.A.
33:1-93.6 et seq. stands in the shoes of the 'old' Southern Comfort Corporation, with respect to wholesalers in this State authorized to distribute products subsequent to June 2, 1966.

THE ISSUE

Therefore, because of the Director's Special Ruling, and respondents' assertion that inability to pay is not an issue in this case, the only remaining question is whether the statute as construed by the Special Ruling is unconstitutional as applied. There is no need to inquire whether the preexisting corporation sold or transferred its stock or assets or merged or consolidated with respondents. The method of acquisition has been rendered irrelevant. Similarly, there is no need to ask whether the acquisition of the Southern Comfort brand by respondents was designed to adversely affect the rights of the New Jersey wholesalers. Indeed, there is no need to inquire at all into the business judgment or motivation of either the preexisting corporation or respondent distiller. As long as the distiller succeeds to the rights or privileges of the brand, that corporation is bound to all New Jersey wholesalers who had previously dealt with the preexisting corporation. Thus, in this matter unless N.J.S.A. 33:1-93.6 et seq. is unconstitutional, petitioners have been unlawfully discriminated against by respondents who have succeeded to the rights or privileges of the Southern Comfort brand and who provide no reason for their actions except an alleged right as the new owners of Southern Comfort. The constitutional question thus raised is whether the statute, as construed, which prevents respondents from eliminating any previously authorized New Jersey wholesalers violates the contract clause, the due process clause, or the commerce clause.

JURISDICTION OVER THE CONSTITUTIONAL QUESTION

Since my statutory obligation under N.J.S.A. 52:14B-10 was to develop a complete and clear factual record on the constitutional question, Brunetti v. Borough of New Milford, 68 N.J. 576, 590-591 (1975) and Roadway Express, Inc. v. Kingsley, 37 N.J. 136, 141-142 (1962), I directed the parties to present at trial or by stipulation any evidence relevant to the constitutional questions raised by respondents. On December 8, 1981, the parties were given an opportunity to develop such proof. However, counsel elected neither to submit proof nor to present any stipulations.

Preliminarily, I must ask whether my function ceases after having provided the parties with an opportunity to develop any record they wish on this matter. In other words, a preliminary question is whether
an administrative law judge initially or an agency head finally may decide the constitutional questions raised in this case.

It has often been repeated that constitutional issues are "unsuited to resolution in administrative hearing procedures." E.g., Califano v. Sanders, 430 U.S. 99, 201 (1977). However, this broad assertion is no longer an accurate statement of the law. In New Jersey, administrative agencies may decide constitutional questions within their special areas of competence. For example, agency action under attack in a particular case may be challenged on constitutional grounds. E.g., Winston v. Board of Education of South Plainfield, 64 N.J. 582 (1974); Portia Williams v. The Red Bank Board of Education, 662 F.2d 1008 (3rd Cir. 1981), and Hunterdon Central High School v. Hunterdon Central High, 174 N.J. Super. 468 (1980).


There is no doubt that cases generally preclude facial constitutional attacks upon statutes in administrative hearings. But: see, Alcala v. Wyoming St. Bd. of Barber Examiners, 365 F. Supp. 560 (D. Wy. 1973). An administrative agency may not deal with purely legal issues. E.g., Schwartz v. Essex County Board of Taxation, 129 N.J.L. 129, 132 (Sup. Ct. 1942). However, the hearing accorded litigants by the Office of Administrative Law is not so "informal and of such a limited scope that it 'clearly bars the interposition of the constitutional claims.'" William v. Red Bank Bd. of Education, 662 F.2d 1008, 1021 (3rd Cir. 1981), (quoting, Moore v. Sims, 442 U.S. 415, 426 (1979)).

A body of law has developed which requires exhaustion of administrative remedies when statutes are claimed unconstitutional as applied. Exhaustion of remedies "is a rule of practice designed to allow administrative bodies to perform their statutory functions in an orderly manner without preliminary interference from the courts." Brunetti v. New Milford, 68 N.J. 576, 588 (1975) (citing, Ward v. Keenan, 3 N.J. 298, 302 (1949)). There is a strong presumption in favor of this rule. Id.; roadway Express, Inc. v. Kingsley, 37 N.J. 136, 139 (1962); East Brunswick Twp. Bd. of Education v. East Brunswick Twp. Coun., 48 N.J. 94, 102 (1966); pleasantville Taxpayers Association v. City of

The exhaustion doctrine has three purposes: (1) to insure that the dispute will be heard first in a forum with the necessary expertise; (2) to create a factual record for possible appellate review; and (3) to produce an administrative decision that may satisfy the parties without the necessity of court adjudication. Atlantic City v. Laezza, 80 N.J. 255 (1979).

Because of the exhaustion doctrine's purposes, I believe that it would be counterproductive merely to note for court decision the constitutional questions in this case. After a lengthy and hard fought administrative proceeding, a factual record and a construction of the statute have clarified the remaining issues. A mere notation of the constitutional questions would provide neither the parties nor any reviewing court with the specialized and experienced perspectives of the Division of Alcoholic Beverage Control and would force this case into the Appellate Division, thereby increasing the cost and delay of an already lengthy proceeding, which consequences are contrary to the policy behind the exhaustion requirement. Paterson Redevelopment Agency v. Schulman, 78 N.J. 378 (1979). In addition, an administrative adjudication of all the issues might satisfy the parties thereby precluding any further expense and delay.

Therefore, I proceed to the constitutional issues, hopefully to promote due process and expedite the just conclusion of a contested case. See, Statement of Senate, State Government, Federal and Interstate Relations and Veteran's Affairs Committee to Senate No. 766-L. 1978 c.67 (The Office of Administrative Law's Enabling Statute).

THE CONSTITUTIONAL QUESTIONS

(a) Due Process

The due process clause of the fourteenth amendment protects an individual or corporation's rights and freedoms from arbitrary governmental action. Murray's Lessee v. Hoboken Land & Improvement

In general, when employing a due process analysis to a statute, the central question is whether the statute is unreasonable or arbitrary. Wisconsin v. Constantineau, 400 U.S. 433 (1971). One must ask whether the statute bears a reasonable relationship to the object of the legislation and to a legitimate state purpose. Hudson Circle Servicecenter, Inc. v. Kearny, 70 N.J. 289 (1976). If the statute does have a reasonable nexus to the promotion of the public health, safety or welfare, then it will not violate the due process clause. Affiliated Distillers Brands Corp. v. Sills, 56 N.J. 251, 260 (1970), mod., 60 N.J. 342 (1972); Grand Union v. Sills, 43 N.J. 390, 403 (1964).

In the case of N.J.S.A. 33:1-93.6, the asserted state interests are temperance, which is the state interest behind the liquor regulatory scheme in general, Canada Dry Ginger Ale, Inc. v. F & A Distrib. Co., 28 N.J. 444, 455 (1958) and the prevention of monopolistic domination of the alcoholic beverage market. Id., at 460. In an introductory comment to N.J.S.A. 33:1-93.6, a legislator stated: "The purpose of this bill is to insure an equitable basis for competition between franchise wholesalers of alcoholic beverages in New Jersey." L. 1966, c.59 (N.J.S.A. 33:1-93.6); Letter Brief of Petitioner, Feb. 1, 1982 at p.4. Similarly, in an introduction to predecessor legislation, it was stated that the goal was to "prevent any monopolistic freezing out of one wholesaler by another by preventing the sale of certain products to him." L. 1942, c.264, Letter Brief of Petitioner, Feb. 1, 1982 at p.4.

A wholesaler dependent upon a distiller for a supply of sought-after merchandise might be tempted to comply with the non-legitimate desires of the distiller if the latter were free to discontinue the supply at will. For the purpose of strengthening the wholesaler's resistance if confronted with a distiller's wish to over-stimulate sales and thus negate the public policy in favor of temperance or a desire to engage in other prohibited acts, e.g., tie-in sales, the statute seeks to prevent the distiller from arbitrarily closing the source of supply to a wholesaler. Canada Dry Ginger Ale, Inc. v. F & A Distrib. Co., 28 N.J. 444, 455 (1958).

N.J.S.A. 33:1-93.6 as construed relates reasonably to these interests. Under the construction, no corporate manipulations could subvert equitable competition between wholesalers. Any wholesaler authorized after June 2, 1966 would remain authorized and protected by N.J.S.A. 33:1-93.6, unless the wholesaler loses the ability to pay, disparages the brand, materially breaches any sale conditions or
makes an unfair preferment in sales effort. N.J.A.C. 13:2-18.1. Thus, all wholesalers will continue to be supplied by distillers no matter what corporation controls the distiller that had previously supplied New Jersey wholesalers. I therefore CONCLUDE that the due process clause has not been violated.

(b) Commerce Clause

*California Liquor Dealers v. Midcal Aluminum*, 445 U.S. 97 (1980) held that a state wine pricing scheme was illegal as a restraint on trade in violation of the Sherman Act. *Id.*, at 113-14; 15 U.S.C.A. 1 et seq. In that case, the state’s regulatory power and the federal commerce power were in contradiction, and “the congressional policy—adopted under the commerce power—in favor of competition” was determined to be more important. *Id.* at 106. In the present case, the state interest behind N.J.S.A. 33:1-93.6 which discourages monopolistic domination of the alcoholic beverage market and the federal interest in competition complement each other. See, *Canada Dry Ginger Ale, Inc. v. F & A Distrib. Co.*, 28 N.J. 444, 455 (1958).

In *Epstein v. Lordi*, 261 F. Supp. 921 (D.N.J. 1966), the court noted that state regulation of liquor under its police power is invalid, as in any commerce clause case, if:

(a) the subject demands national uniformity so that State action is precluded even absent Federal action; (b) Congress has occupied the field to the exclusion of State regulation; or (c) a particular State statute conflicts directly with an express regulation by Congress. *Cooley v. Board of Wardens*, 12 How. 299, 13 L.Ed. 996 (1851); *Kelly v. State of Washington*, 302 U.S. 1, 58 S.Ct. 87, 82 L. Ed. 3 (1937). at [931]

None of these three conditions appears to operate in this case. The statute as construed requires liquor previously distributed into New Jersey to continue to be distributed. The impact upon commerce appears negligible while the interests of New Jersey in continuing supplies to wholesalers are great. I, therefore, CONCLUDE that there is no commerce clause violation.

(c) Contract Clause

The contract clause precludes the impairment of contractual obligations, but is not absolute. In this century, the strength of the clause has waned in the face of economic necessity and public policy. Often, legislation altered contractual obligations because of important economic or public policy goals and was upheld against contract clause

In *Globe Liquor Co. v. Four Roses Distillers Co.*, 281 A.2d 19, 21 (Del. Supr. 1971), cert. den. 404 U.S. 873 (1971), the Delaware Franchise Security Law changed a one-year contract term into one which would continue indefinitely. Consequently, the court struck down the law under the contract clause, *inter alia*, because that law changed the existing franchise contracts between franchisors and wholesalers. *Id.*, at 20.

In this case, by virtue of the Special Ruling, Brown-Forman has been placed into the shoes of the preexisting Missouri Corporation and whatever contract they had with each other may have been affected. However, the contract respondents had with the Missouri Corporation specifically noted and recognized all New Jersey wholesalers and contrary to respondents' argument that they merely "purchased a brand," if I were to characterize the transaction, I would declare it a de facto merger, *cf.* *Applestein v. United Board and Carton Corp.*, 60 N.J. Super. 333 (Ch. Div. 1960), making the Delaware Corporation responsible for the Missouri Corporation's debts and liabilities. *McKee v. Harris-Seybold Co.*, 109 N.J. Super. 555 (Law Div. 1970), *aff'd per curiam*, 118 N.J. Super. 480 (App. Div. 1972). In addition, respondents claim that their right to make new contracts with wholesalers is being impaired. By this argument, however, no present contract would be impaired by *N.J.S.A. 33:1-93.6*. In addition, the contract Brown-Forman is being held to is identical to the preexisting contract that the Missouri Corporation had with petitioners; both are terminable only under *N.J.A.C. 13:2-18.1*. Therefore, *Globe Liquor Co., supra*, is distinguishable and whatever right Brown-Forman may have to make new contracts is outweighed by the legislative purpose of *N.J.S.A. 33:1-93.6* which fosters the public policy of fair wholesaler competition in New Jersey. Consequently, I CONCLUDE that there is also no contract clause violation.

(d) The Twenty-First Amendment and the Presumption of Constitutionality

The Twenty-first Amendment greatly affects the constitutional analysis in cases concerning liquor importation and transportation, particularly in commerce clause cases. The Twenty-first Amendment, which repealed the eighteenth amendment, gives the states expansive power to regulate alcohol. As the Supreme Court stated, "The Twenty-first Amendment has placed liquor in a category different from that
of other articles of commerce . . . local, not national, regulation of the liquor traffic is the general Constitutional policy." *Carter v. Virginia*, 321 U.S. 131, 138 (1944) (Black, J. concurring). Obviously, therefore, the Twenty-first Amendment further supports my conclusion that *N.J.S.A.* 33:1-93.6 is constitutional.

In addition, statutes are presumed constitutional. *E.g.*, *Independent Electricians, etc. Assoc. v. N.J. Board of Electrical Contractors*, 48 N.J. 413 (1967). I note respondents' argument that this statute was designed to benefit wholesalers who seek to perpetuate a monopoly, *Affiliated Distillers Brands Corp. v. Sills*, 106 N.J. Super. 458 (Ch. Div. 1969). However, on this record, I cannot conclude that the dominant purpose of this legislation was to advance such private interests. *Independent Electricians, supra*, at 420-421.

**DETERMINATION**

I, therefore, **CONCLUDE** that *N.J.S.A.* 33:1-93.6 as construed by the Special Ruling is constitutional and that respondents have discriminated against petitioners contrary to *N.J.S.A.* 33:1-93.6 *et seq.* and *N.J.A.C.* 13:2-18. Consequently on this 26th day of March 1982, I **ORDER** that respondents continue to sell Southern Comfort liquor to petitioners on the same terms as heretofore existed.

This recommended decision may be affirmed, modified or rejected by the Acting Director of the Division of Alcoholic Beverage Control, Dennis P. O'Keefe, who by law is empowered to make a final decision in this matter.

**FINAL DECISION BY THE DIRECTOR OF THE DIVISION OF ALCOHOLIC BEVERAGE CONTROL, JOHN F. VASSALLO, JR.**:

No written exceptions were filed by the parties in this discrimination proceeding brought by petitioners under *N.J.S.A.* 33:1-93.6 *et seq.*

Having considered the entire record in this matter, I concur with the basic findings and conclusions of law set forth by Judge Lefelt in the initial decision and I adopt same as my conclusions herein.

Accordingly, it is, on this 10th day of May, 1982, **ORDERED** that the respondents, Brown-Forman Distillers Corp., Southern Comfort Corp. and B.F. Spirits, Ltd. sell and continue to sell to petitioners, Royal Liquor Distributors & Importers, Dealers' Liquor Co. and Joseph G. Smith & Sons, Inc. all of its
Southern Comfort alcoholic beverage products distributed in New Jersey, on terms and conditions usually and normally required by respondents.

You must check the New Jersey Citation Tracker in the companion looseleaf volume to determine the history of this case in the New Jersey courts.