ORIGINAL

OFFICIAL TRANSCRIPT
PROCEEDINGS BEFORE

THE SUPREME COURT
OF THE
UNITED STATES

CAPTION: BONITO BOATS, INC., Petitioner V. THUNDER CRAFT BOATS, INC.

CASE NO: 87-1346

PLACE: WASHINGTON, D.C.

DATE: December 5, 1988

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IN THE SUPREME COURT OF THE UNITED STATES

BONITO BOATS, INC.,

Petitioner

v. No. 87-1346

THUNDER CRAFT BOATS, INC.

Washington, D.C.

Monday, December 5, 1988

The above-entitled matter came on for oral argument before the Supreme Court of the United States at 11:04 o'clock a.m.

APPEARANCES:

TOMAS MORGAN RUSSELL, ESQ., Chicago, Illinois; on behalf of the Petitioner.

CHARLES E. LIPSEY, ESQ., Washington, D.C.; Amicus Curiae in support of Judgment Below.

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(11:04 a.m.)

CHIEF JUSTICE REHNQUIST: We'll hear argument next in No. 87-1346, Bonito Boats v. Thunder Craft Boats.

Mr. Russell, you may proceed whenever you're ready.

ORAL ARGUMENT OF TOMAS MORGAN RUSSELL

ON BEHALF OF THE PETITICNER

MR. RUSSELL: Thank you, Mr. Chief Justice. May it please the Court:

This case presents for review the issue of whether a state unfair competition statute enacted pursuant tc state police power can exist harmoniously with the federal patent laws. We submit that it can.

The cases here, on a petition for certiorari to the Supreme Court of Florida, which held that the Florida statute unconstitutional on Sears-Compco grounds. Three reasons support reversal of the Florida Supreme Court.

One, the Sears-Compco cases are clearly distinguishable, were misapplied below, and are not controlling here.

Two, the Florida statute does not clash with the purposes and the effects of the patent laws. And

three, the Florica statute is a legitimate exercise of the state police power to regulate unfair competition.

A long line of decisions of this Court has approved and upheld as constitutional these state statutes, even when they totally bannec the manufacture anc use of patented or unpatented articles or processes.

CUESTICN: Mr. Russell, may I inquire preliminarily whether your client coulc have obtained a patent for its boat hull?

MR. RUSSELL: Justice O'Connor, quite clearly boat hulls could be patented, have been patented, in the past.

CUESTICN: But your client chose not to try to obtain a patent for it?

MR. RUSSELL: I con't know whether they tried to obtain a patent or not, but quite clearly the boat in issue in this case was not patented.

CUESTICN: Could the boat hull have been registered as a sculptural work?

MR. RUSSELL: That raises a procedural issue, Justice O'Connor.

I think the clrect answer to your question is quite clearly no. But it raises a cuestion as to whether the review of the copyright preemption issue is

properly before the Court.

We take -- we noted in page 13, footnote five of our reply brief, we took the position that the copyright issue was not properly before the Court, relying on Supreme Court Rule 21.1, and we would like to rely on the recent case of Bankers Life v. Crenshaw, which is now reported at 108(a), Supreme Court 1645, a decision handed down last May 16.

We take that position because the copyright preemption issue was not within the scope of the petition when it was granted in this case. It's an issue which has not been pressed or passed on below.

It is a -- an issue --

QUESTION: Excuse me, Mr. Russell, would it not result in affirmance if we bought the argument? Can't we affirm on a ground not argued below?

MR. RUSSELL: Yes, I believe the Court can.

QUESTION: So we could consider the copyright issue if we decided to.

MR. RUSSELL: Yes, sir, that's true.

QUESTION: We can affirm on, on a, a basis not relied upon by the Supreme Court of Florida. Is that where this came from?

MR. RUSSELL: Yes, sir.

QUESTION: But the ground has to have been

maintained in that court, as I understand it.

MR. RUSSELL: That's my understanding as well. And the copyright preemption issue has not been raised or pressed or passed on by any of the Florida courts.

It has not within -- it has not been briefed by counsel; we have no judicial decisions on the copyright issue below. This issue is being raised de novo in this Court, and it's being raised by amici, not by the parties.

QUESTION: Well, the thing that's curious, if the thing -- if the boat hull was patentable, it is curious that if the Florida statute is valid it would in effect grant a, a right in perpetuity that under the patent law would be limited.

MR. RUSSELL: The right -- may I first back up, Justice O'Connor, and fully answer your, your prior question as to whether it would be a sculptural work?

It quite clearly is not under 301 for three reasons: 301 preempts as to the subject matter of copyright, as specified in 102, but 102(b) specifically excludes a process.

Secondly, 301 applies to subject matter of copyright and 102 includes pictorial, graphic, and sculptural works. And that phrase is defined in 101.

In 101 there is an exclusion, and the exclusion is that if the design of the useful article shall be considered a pictorial, graphic or sculptural work, only if and only to the extent that such design incorporates pictorial, graphic, or sculptural features that can be identified separately from and capable of existing independently of the utilitarian aspects of the article.

Now, these boats are clearly utilitarian. So, it would be considered a sculptural work only if some aesthetic feature could be separated and identified.

The third ground is that Section 301 really doesn't apply here because the Florida statute does not create a right equivalent to any of the exclusive rights specified in Section 106, and that is the right to reproduce copies. The Florida statute just does not create any such right to reprocuce copies.

Justice O'Connor, would you help me by giving your question again on the patent law?

QUESTION: Well, it just struck me that if this boat hull could have been patented and wasn't, but the owners of it want to be protected under Florida's special law, Florida's law would give them a right in perpetuity that the patent law would give only for a limited period of time.

MR. RUSSELL: That is correct, Justice O'Connor. The same thing was true with the protection of the sound recording master recording in Goldstein. That is true.

But the right that is granted for the protection of the industry in Florida is exceedingly narrow, and we, we submit does not conflict with the purposes and effects of the Federal patent law.

QUESTION: Mr. Russell, maybe this is the same question, but may I just phrase it a little differently.

Would you contend that this statute would apply even to the boat hull after a patent had been issued and expired, something that had been previously covered by an expired patent?

MR. RUSSELL: Yes, Justice Stevens, that's true.

QUESTION: So it clearly would give --

MR. RUSSELL: They're both unpatentable items.

QUESTION: But, but the statute would apply even if a patent had issued and expired, so there would be, as Justice O'Connor says, a state law grant in perpetuity of something that the Federal patent had covered?

MR. RUSSELL: Yes, and I think that is also true with respect to the master recordings that were protected in perpetuity in the Goldstein case.

I might add that the Florida statute does not distinguish -- does not operate as against a patented product. It is simply a separate independent cause of action against a copier.

One would be a violation of the monopoly given by the Federal patent law, and the second would be a violation of the Florida statute, if the boat had been copied using the direct molding method.

QUESTION: Well, it would clearly be an infringement if the patent had been in effect at the time.

MR. RUSSELL: There would clearly be an infringement, and there was also clearly be a violation of the Florica statute, if it had been copied using the direct molding method.

QUESTION: Right.

QUESTION: Well, your argument rests upon the fact this is only one way of copying? There are other ways of copying.

What, what if Florida had a lot of other laws, each, each one of which only copies -- only applies to one manner of copying, but, but together they cover all

manners of copying?

MR. RUSSELL: Justice Scalia, I think the line has already been drawn in the Sears-Compco cases, and that is whether it is the equivalent of the Feceral patent laws.

Now, clearly in Sears-Compco, in those cases no copying was permitted at all. That was the holding of the Seventh Circuit below, and quite clearly that is a line.

Now, at the other end of the extreme, we have Florida that prohibits only the direct molding method.

QUESTION: Only the simplest method of copying?

MR. RUSSELL: Well, I can't say that it's the simplest, Justice. There may be many other methods of copying that may be simpler than the direct molding method.

For example, it can be copied by hand, it can be copied by measurement, it can be copied by photographic means. It can be copied by the use of very sophisticated computer equipment.

There may be other means that are, are much easier and in fact may even be less expensive than the direct molding method. Remember, the direct molding method is a labor-intensive method.

QUESTION: Well, then, what's the point of the Florida statute?

MR. RUSSELL: It is, it is --

QUESTION: If there are other methods that are easier, then what purpose does the statute serve?

MR. RUSSELL: The statute serves the purpose, Justice Kennedy, of prohibiting as unfair competition a practice which is widespread in the marine industry --

QUESTION: Well, but if you're telling us there are a lot of other ways that are easier, then I just don't see what purpose the statute has at all.

MR. RUSSELL: The purpose has the statute of prohibiting the practice which is prevalent commercially in the marketplace and is being used today to copy boat hulls and to take the investment that the original manufacturer puts in producing a new, a new product on the market, with product improvements.

It is in effect an unfair taking, a misappropriation of that investment. So those are purposes that are served.

QUESTION: One suspects it's being used because it's the easiest. Don't you have that nagging suspicion?

That the reason this is the prevalent method is because it's the easiest? Or you think they're using

the hardest? It is the easiest, isn't it? I mean, you say you don't know it's easiest. It is the easiest, isn't it? Isn't that why it's being used?

MR. RUSSELL: Well, it is, it is a difficult process, Justice Scalia. They have to go buy the boat, take the boat apart, put the hull upside down --

QUESTION: Well, I know, but compared to what? It's difficult compared to what? What's the alternative?

I really thought your -- I really thought the whole point in your brief was that the reason the Florida law was good is that this is an excessively easy way to copy things.

MR. RUSSELL: It is, it is an easier method to copy than using the traditional methods of developing and preparing a wooden plug.

Perhaps it would be helpful if I described that process. A naval architect sits down and designs a boat after he is given the parameters of the design by the designers, and after the designers learn from market researchers what the public actually wants.

The architect designs the boat on a regular standard size, small drawings, and he determines the contours of the hull, its shape and its curvature. And then that drawing is given to other people and they

prepare full-size drawings. If you're making a 55-foot motor yacht, you then have drawings that are 55 feet long.

They then are placed down on wood and design of the section on the hull is then cut out on the wood. And those wood sections are then mounted on a foundation, starting at one end of the boat and going to the other.

And then plywood, strips, are nailed across those forms, which then produces the contours of the hull. And then a second layer of wooden strips is glued on the surface and then that wood plug is sanded down very, very smooth. And then that is used to make a master mold.

And from the master mold then are -- production molds are made that are used on the actual production lines. It quite clearly is true that the direct molding method is much simpler, much easier, and certainly much less expensive than the traditional method of building a wood plug. That certainly is true. I thought you were going to the other end of the spectrum, Justice.

The Florida statute only prohibits this one method that we have been discussing, the use of a competitor's boat as the wooden plug to build a

production mold. And only if it is done for commercial purposes.

It prohibits only this one limited method. It does not prohibit the copying of boats; the boats themselves and the boat designs are in the public domain, they remain in the public domain. And they may be legally and freely copied in every detail by anyone who so chooses to do so.

QUESTION: I suppose that some other state might just prevent copying by another manner, just the single -- it picks out some other way of copying and says we are preventing copying only in this way. And, and, and another state might, might permit copying in another specific way. And each one of those states would be quite proper, in your view.

MR. RUSSELL: Yes. There are 12 states, Justice Blackmun, that have enacted an anti-direct molding statute. That is the practice --

QUESTION: You flatter me.

MR. RUSSELL: Thank you. I'm sorry, Justice.

QUESTION: No, you flatter me, that's all.

MR. RUSSELL: The Florida statute does not prohibit the use of the direct molding process to copy another's boat for non-commercial purposes.

For example, you want a copy, make a boat of

your own as Boy Scouts sometimes do with canoes, fine. If you want to copy it for research purposes or testing purposes, that's fine.

The first argument that -- that we want to make here is that the Sears-Compco cases are clearly distinguishable from this case, and Justice Scalia your question was right on the heart of it.

In the Sears-Compco cases, all forms of copying were prohibited, and here we have only one form, one form of copying.

It's not the equivalent of the, the law in Sears-Compco, the Illinois law of unfair competition, because that was in effect a monopoly that we enforceable by the state government. And this Court held that unconstitutional, and we believe correctly so.

QUESTION: Of course, Sears did say that, that, that absent a patent there was a public right to copy in every detail.

MR. RUSSELL: And that is true here, that is true here. They may copy in every detail. They may not copy using direct molding method, that is the only limitation here.

And in fact if you, if you -- you can copy in every single detail, and it's, it's not objectionable,

because the boats are in the public domain and the design is in the public domain.

QUESTION: What if Florida says, you can't copy it in the following ways, and they list six, but there's still another way?

MR. RUSSELL: I would go back to the Sears-Compco cases and make a determination as to whether that is the equivalent of the patent laws, and in doing that I would look to what are the purposes and effects of the state statute and what are the purposes and effects of the federal patent laws. And I submit that they are not inconsistent.

Aronson, decided by this Court in 1979, set out for purposes of the patent laws which -- by which a state statute is to be measured for supremacy purposes. And the first purpose was to foster and reward invention.

The second was to promote disclosure of inventions to the public. The third was to assure that ideas placed in the public domain remain there for the free use of the public.

Now, the purposes of the Florida statute do not clash with those purposes. First of all, the Florida law fosters future product improvements. It does so by protecting the investment that is made in the

original manufacturer bringing his product to market with an innovation.

Two, it protects the investment of time, money and effort in making the original boat. And it therefore provides incentive for innovation. It preserves an industry which is endangered by a common act of unfair competition, the direct molding method.

That industry is considered, that threat is considered a threat --

QUESTION: Mr. Russell, may I ask, you refer to his unfair competition. If there were no Florida statute would it be unfair competition?

MR. RUSSELL: Well, we do have a law on unfair competition, yes. Now, I think your question goes as to whether it could be actionable as misappropriation under the common law. Quite clearly there, there is a body of state law of misappropriation, yes.

QUESTION: So you think that even without the -- you don't need the Florida statute then?

MR. RUSSELL: Well, we certainly do because it makes it very clear that the direct molding method --

QUESTION: You think it's just clarifying a law, a rule that existed independently of the Florida statute?

MR. RUSSELL: Well, certainly we have statutes

that have parallel rules that are in the common law.

QUESTION: Well, I know that's possible, but is that your position in this case? That really, as a matter of unfair competition, common law, you could have enjoined this, this --

MR. RUSSELL: Well, we certainly could have brought the action and tried to persuade a court to do so.

QUESTION: Well, sure.

MR. RUSSELL: It certainly is -- it's much clearer if we have a state statute that says that that is a --

QUESTION: Well, the real point of my question is, when you characterize it as unfair competition, it seems to me that that's the issue. It's, it's unfair competition by reason of the statute and whether, whether you can pass a statute that makes something unfair competition that otherwise would be preempted by the policies under the patent laws.

MR. RUSSELL: Well, we think clearly that it is a proper exercise of the state police power to govern and set conditions on competition. Free competition doesn't mean unfettered competition.

QUESTION: Could the state provide that, that they could charge a royalty for, for using the molding

process?

MR. RUSSELL: Well, certainly this statute does not provide it.

QUESTION: Well, it provides it without the written permission of the other party, and I suppose you could say I'll give you written permission provided you pay me $100 a boat.

MR. RUSSELL: That's correct.

QUESTION: And you think that would be proper?

MR. RUSSELL: I think that would be proper. It would be, it would be -- it's the same as the license of a trade secret, it's the same as the license --

QUESTION: But this is the license of something that's in the public domain.

MR. RUSSELL: It is a license to use the direct molding method to copy something that is in the public domain.

QUESTION: Something that the copier has purchased and owns himself, I suppose.

MR. RUSSELL: Yes, that could be true. It is fundamental that a patent grants the right to exclude others from making, using or selling a product, a machine or a process.

In effect it is a property right, it can be

sold, licensed, pledged, devised. It can be the subject of a trust, it can be the basis for worldwide patent protection.

But, a patent does not grant a right to actually make, use or sell the invention. It doesn't give a right to practice the invention.

Whether you can practice your invention is is a question of whether the sale or distribution of that product would violate other laws. And here we have our third argument, which is the Florida statute is a valid exercise of Florida's police power.

The patent laws and the state police power have existed in harmony for many, many years. The Patterson and Webber cases cited in our briefs, decided back in 1879 and 1880 -- the 1880 term, applied the patented and unpatented articles.

Sears itself recognizes the validity of the exercise of state police power against unfair competition. In the passage where it said that the states could establish requirements for the labeling of package dress or to prevent deception of the public.

The broad range of state authority to regulate intellectual property was reaffirmed in the post Sears-Compco trilogy of cases cited in our brief. State competition laws regulate business ethics, such as

misappropriation of the original investment.

The Florida state statute protecting investments in boat improvements is a legitimate exercise of police power. And I would like to reserve the remainder of my time.

QUESTION: Thank you, Mr. Russell. Mr. Lipsey, we'll hear now from you.

ORAL ARGUMENT OF CHARLES E. LIPSEY
AMICUS CURIAE, IN SUPPORT OF
JUDGMENT BELOW

MR. LIPSEY: Mr. Chief Justice, and may it please the Court:

I would like to refocus the Court's attention for a moment on five basic principles which I think are fundamentally undisputed and which I think govern the outcome of this case.

The first is that the Federal patent law seeks to strike a balance between incentives for innovation and preservation of competition.

The second point is that the patentability standards which Congress has adopted to effect that policy reflect not only what Congress wished to be protectable but also that which Congress wished to remain in the public domain.

The third point, where there's no dispute, is

that the boat design and the boat manufacturing process involved in this case are both squarely within the technological subject matter covered by the patent law, addressed by the patent law, but equally clearly fail to meet the patentability standards which Congress has prescribed.

They are in the public domain because the boat proprietor here chose not to avail itself of the protections afforded by the patent law.

The fourth point which I think is not in dispute is that had a patent issued on the boat itself, among the rights which would have been conveyed to the proprietor would have been the right to exclude others from making that boat by any technique, including making that boat by the direct molding technique.

In fact, had a product -- had a patent issued on the process of making the boat, that would have directly prohibited others from manufacturing the boat by the direct molding technique.

And the last point, which I think -- is not in dispute, is that the Florida statute, for the purpose of striking a balance between incentive for innovation and competition, has chosen to give to this boat manufacturer a right to exclude others from making his boat by the direct molding process under circumstances

where the Federal patent law would have denied that right.

And when one analyzes that scenario under applicable authority of this Court in the federal preemption area, one is led to the conclusion that the Florida statute interferes with attainment of the full objectives of the federal patent law.

Why? Because it strikes the balance in a different place than Congress would have struck it.

QUESTION: Mr. Lipsey, do you acknowledge that there is some room still for state laws to protect trade secrets and to do other similar things for protection?

MR. LIPSEY: Absolutely, Your Honor. The trilogy of cases upon which the Petitioner relies really don't address the area addressed by the patent law.

The patent law deals with the rights of the public and the rights of inventor -- the inventor to use things which are publicly known. It doesn't purport to address contractual obligations of confidence or rights of privacy from industrial espionage addressed by the Trade Secret Law. The subject of the Trade Secret Law by definition is not in the public domain.

Just to mention the Goldstein case while we're on it, that case -- the whole ratio desidende of that case was that the area addressed by the State of

California was one left wholly untouched by the federal government and the copyright law.

The federal copyright law simply didn't deal with sound recordings at that time, and since there had been no balance struck there was no interference with a federal balance by the state choosing to act in that area.

Now, they specifically distinguished the patent situation in the Goldstein case where there had been a comprehensive scheme of federal regulation enacted that dealt with virtually everything under the sun. That's how this Court has interpreted the scope of the patent law and where the balance had in fact been struck.

QUESTION: Mr. Lipsey, I'd always thought the patent law protects ideas, it protects discoveries as the Constitution puts it.

Here Florida is saying, you can use that idea, you can create hulls that like all you like. But you can't use this man's hull. What if Florida had a law saying, you can't -- you -- are houses patentable? Can you design -- I presume you can design a house in a certain way that's, that's so novel that it's patented.

Suppose Florida had a law saying, you can't use a photograph of anyone's house for commercial

purposes, without compensating that person.

MR. LIPSEY: Well, Your Honor --

QUESTION: Now, would that violate the patent law?

MR. LIPSEY: It wouldn't -- let me address --

QUESTION: Now, the person hasn't patented the house, but has built the house, and there's this Florida law, you can't use a photograph of anybody's house without compensation.

Now, if somebody violated that law, would you say, oh, this is contrary to the United States patent law?

MR. LIPSEY: Let me answer that by giving you two hypothetical situations.

The first is where the house is being built in a secluded area surrounded by a fence, and the idea of the house has never been disclosed to anybody who has -- who doesn't have an obligation of confidence to the designer, and the photograph is taking by flying over the fence for the purpose of taking a photograph.

That violates the law, but it doesn't violate the patent law. That's the trade secret theft, that's a discovery by improper means.

Now, let me posit the other scenario, which is the house is built on the corner of 14th and

Pernsylvania Avenue out here, and as it is arising it is in plain view of the public and a man takes a photograph of it, as he's entitled to take a photograph of anything in the public domain, and uses that.

An attempt to reach -- that, that could not be reached under the Trade Secret Law, and an attempt to limit his options in, in copying something he's entitled to copy would offend the principles of the patent law, it would strike a different --

QUESTION: Don't, don't state laws all the time prevent people from using another person's product in certain ways?

There are all sorts of laws, even though the products are patented -- all, all Florida here is saying is we're not interested in this man's idea, his idea you can steal. He hasn't patented it. But doggone it, don't use his hull to make another one. We're just protecting the physical hull. You cannot use that hull to make another hull out of it.

What does that have to do with ideas?

MR. LIPSEY: Well, first of all, let me correct a misperception. Even the patent law doesn't cover ideas.

Ideas, principles of nature, laws of nature, these are things that are in the storehouse of

information for all men to use, they're not -- they are not articles, machines, compositions of matter and processes within the scope of the patent law. It's only the application of those ideas to practically useful ends that the patent law addresses.

But assuming -- your question still has validity notwithstanding that, which I frankly have totally lost track of.

(Laughter)

QUESTION: Never mind.

(Laughter)

MR. LIPSEY: I must confess I've forgotten the question. I'm sure --

QUESTION: Well, the question -- I remember the question. The question was, say the house is down here on 14th and Pennsylvania. Can the governing jurisdiction pass a law saying you cannot take a picture of that house and use it for commercial purposes without the permission of the owner?

MR. LIPSEY: The patent law is concerned with what's in the public domain, and that's a term of art in these cases.

The public domain means exactly what the words say. It means it's an area over which the public has supreme title. Now, just because the public has supreme

title in an area, as it does in a public park, doesn't mean the public is necessarily, necessarily entitled to use it.

There's a sign at the top of a waterfall in Yosemite National Park that says, you may not pass this, this spot. That doesn't withdraw that waterfall from the public domain.

It, it remains in, in the public's ownership. And that is not the sort of action that offends the patent law. But --

QUESTION: What's, what's your answer to the question about that house at 14th Street?

MR. LIPSEY: Well, I -- I'm, I'm getting to that, which is that where the, where the state regulates the right to use something to prevent -- to protect the health and safety of its citizens, it doesn't create in that thing an exclusive right in belonging to a private individual.

It says, if the sign at the top of the waterfall said, you may not go here unless John Doe says you may come here, that does remove that from the public domain.

And the scenario you posit, if the state simply wants to regulate for health and safety reasons how everybody can use --

QUESTION: No, no. Let's say the purpose of the regulation is for economic, just for economic purposes.

Say instead of a house you take your picture and I want to use it in my ads for new suits or something like that, as a, as a handsome -- would you be entitled to, and say the state law provided that you can't take somebody's picture and use it for commercial purposes without compensating that individual.

MR. LIPSEY: There, there is a law to that effect, it's grounded in the law of --

QUESTION: It's known as the right of privacy.

MR. LIPSEY: That's the right of publicity, that's perhaps --

QUESTION: Is the law of privacy inconsistent with the policies of the patent law?

MR. LIPSEY: Not at all, because those are interests which are not addressed at all in the balancing done by Congress.

What they're concerned about is how do I promote innovation on the one hand, by giving property rights, and how do I preserve competition on the other by denying property rights in things which ought to be in the public domain. That's all the patent law deals

with.

QUESTION: Well, what if this boatmaker had a provision in his regular sales contract that required the purchaser to agree not to copy it?

MR. LIPSEY: Your Honor, I believe that's the next case that you're going to have here. That --

QUESTION: How do we decide it?

MR. LIPSEY: I believe that that raises issues of state contract law enforcement. It may raise questions under the antitrust law, and there is a patent law doctrine which might be implicated, this Court's decision in Lear v. Atkins, that says when you seek by contract to deny to a member of the public a right which the patent law demands he has the Court may declare the provision of that contract unenforceable on policy grounds. But I don't believe it raises a preemption question.

So, I'd, I'd like to deal briefly with the opposition, the arguments of the Petitioner in opposition to the decision of the Florida Supreme Court.

Their main argument is, this doesn't take any product out of the public domain, it only takes a process out of the public domain. And there's a double-barreled answer to that.

One is the answer which is in the opinion of the Supreme Court, Court of Florida, and that is that when you undertake, for purposes of striking a balance between innovation and competition, to tamper with the resources that are in the public domain that are available to a man who's entitled to copy, you interfere indirectly with the right which Sears and Compco says you may not interfere with directly, and that statute, that act ought also to be preempted.

There's a second and I think equally powerful answer to that, which is you ignore completely the notion that processes are patentable inventions too. The patent law covers not just articles, it covers processes, compositions of matter, and machines.

And when you go to withdraw from the public domain an unpatented and publicly-known process, you offend the principles of Sears and Compco just as surely as you do if you seek to withdraw an unpatented and publicly-known article.

QUESTION: I assume a state can say you can't reproduce it by a process that involves nuclear energy, or something of that sort.

MR. LIPSEY: Absolutely. That's a safety matter, a safety matter. And that applies to everybody.

QUESTION: That's a safety matter. That's -- one of the state's police power concerns is safety.

Here, here the state is saying you can't do it by using the very individual's -- the sweat of his very brow, using the same physical hull that he has, has, has produced. You want to do it, produce your own physical hull.

MR. LIPSEY: Well --

QUESTION: I, I, I mean, once you acknowledge the state can limit some of the manners of reproduction, why isn't this a reasonable manner of, of limitation?

I mean, you're making up the -- you're making up a principle you can only limit it for safety reasons. Where did you get that from?

MR. LIPSEY: Well, Your Honor, I had that trying to be fair. I was --

QUESTION: Oh, maybe you can't even do that.

MR. LIPSEY: No, no. Let me answer that. The Federal law of supremacy and preemption is not a black letter, inflexible thing, and the interest which the state is seeking to protect is certainly a relevant inquiry in making the preemption analysis.

And I think the authorities of this Court indicate that where the state is acting in the heart of its police power, dealing with the health and safety of

its citizens, that greater deference is given state action in that area than it might be where the state is acting in a peripheral, commercial sort of arena. And so that's why I focused on that distinction.

Secondly, differences in the state's objectives manifest themselves in differences in the vehicles adopted in the statute to attain the goal. If you're interested in protecting health and safety, you prevent everybody from doing it. You create no private right to exclude others.

But when you're interested in balancing incentive for innovation against the right to compete, the vehicle one adopts is to give an exclusionary right to the proprietor, just as the patent law adopts giving an exclusionary right to the proprietor.

And so the difference in objective of the statute is reflected in adoption of a vehicle which directly collides with the statutory scheme in the patent law. And that, that was why I, I focused on the difference in objective.

QUESTION: Isn't* there a law requiring licensing of engineers, of mechanical engineers, or whatever kind of an engineer makes a drawing of a hull, I don't know. Nautical engineer, whatever it is.

MR. LIPSEY: Creates no private property

right, Your Honor. It creates in no citizen the right to exclude some other citizen from using something in the public domain.

QUESTION: No, but it prevents, it prevents somebody from, from taking to his friend, Charlie, who happens to be very good at draftsmanship, this hull and say, Charlie, do me a hull. You can't do that. That manner of reproducing it is prohibited by the state. You have to take it to a, a, a licensed engineer.

Now, why doesn't that limit the manner of reproduction? And it's an area that doesn't involve health or safety.

MR. LIPSEY: Well, first of all, Your Honor, it may limit the options in reproduction, but it does so without withdrawing anything from the public domain. There's no God-given right to --

QUESTION: Neither does this.

MR. LIPSEY: I beg your pardon?

QUESTION: Neither does this. The shape of the hull is not withdrawn from the public domain. What's --

MR. LIPSEY: But the process of making it is, and the process of --

QUESTION: So in the case I gave you, making it through this -- through Charlie is withdrawn.

MR. LIPSEY: Well, your -- we are disagreeing on the difference between a technological technique, which is the subject of the patent law, and a method of doing business, such as whether you'd use a licensed engineer or an unlicensed engineer, which the patent law doesn't even address.

And if we're talking about preemption by the patent law, only the former situation is preempted and the latter is not.

QUESTION: (Inaudible) as you say that the patent law does address manner of reproduction.

MR. LIPSEY: No, I --

QUESTION: And I don't see that it addresses that. It addresses whether people are allowed to reproduce; it doesn't specifically say, by every possible means and the state can't exclude any, because you acknowledge the state can exclude some.

MR. LIPSEY: Your Honor, the patent law deals with technology, with the skill and art by which things happen in this country, by which things are changed into other things, with science.

It doesn't purport to deal with licensing techniques, with safety concerns, with any of these other matters cited in the cases in the Petitioner's brief.

And, and so the preemption issue is a narrow one. Is the state creating a property right, a right to exclude others, in technology of the sort which the patent law deals with and says should be free. And I, I think we've established pretty clearly that it does in this case.

I'd like to just mention that this argument that it's police power, it's police power, is kind of a red herring. Even if you concede that it is within the police power of the state, all that does is establish the right of the state to act absent the patent law.

It begs the question of whether or not it's an exercise of police power, which is nonetheless preempted because it clashes with the objectives of the federal patent law.

QUESTION: Of course, you do, you do have statements in the Patterson case that the patent laws were not designed to displace the police power of the state. You can certainly distinguish Patterson, but there is that language in the case.

MR. LIPSEY: There is that language, but the same argument that it's police power, it's police power, could have been made in Sears-Compco as well.

And, and so obviously there are some police powers which are not preempted and there are some which

may be exercised in a way which is preempted. And let me give you an example.

Suppose the State of Florida wanted to promote innovation in boat hull design, but did so by granting tax credits for investments made in manufacture of an original boat hull.

They achieved the same goal, but they do so without withdrawing anything from the public domain, without giving to the proprietor a right to exclude others from using technology that's already out there.

That would not have been preempted. But the vehicle they've chosen to effect this policy happens to be preempted.

I'd like to mention briefly the Interpart opinion of the federal circuit, which is cited and relied upon heavily by the Petitioner.

As with any lower court authority, I think its value here is only for the thoroughness and logic of its analysis. The Interpart opinion didn't deal at all with the flip side of the federal patent law coin, which is this policy of protecting competition in things that are in the public domain.

It did not deal at all with the process patent aspects of the right, which is given by the State of Florida, and it's wholly unsatisfying sort of analysis,

and I don't think that it really alters the analysis in this Court at all.

Finally, I would like to address the point they make, they reap where they do not sow, it's unfair, and there ought to be a law.

As the questions of Mr. Russell pointed out, the question of whether it's unfair is something we have to analyze in light of what the law permits, what the patent law permits.

And in 1938 this Court decided the Kellogg case and said, it's not unfair to use something that the patent law leaves in the public domain. And that was the essence of the Sears and Compco holdings in 1964. And it's apparently time to say that again.

Secondly, they're really not reaping where they do not sow, to carry the agricultural analogy further they are gathering what nature leaves in the public domain.

It is in the very nature of technological processes that once they are publicly disclosed they force themselves into the possession of everybody who learns of them. And that person can be dispossessed of the right to use them only by the issuance of a valid patent.

And finally, when they say there ought to be a

law, there is a law. There's the Federal Patent Law, there's the Federal Design Patent Law. It provides protection in this area.

They should use it. If it's inadequate they should go to Congress and ask them to change it, or to modify it, or embellish it. And in fact requests have been before Congress for years to modify the patent law in the area of industrial designs and to allow some more limited, easier to obtain protection.

That's where the debate is. I think that's where it ought to stay. The dispute is much broader than just boat hulls in Florida.

There are 12 statutes dealing with this sort of thing. Three of them deal with every manufactured article that there is, not just boat hulls. One of those statutes is being used to try to stifle competition in the automobiles aftermarket for crash part.

The economic stakes are immense. The divergent interests are immense and of national scope. And it's the sort of thing which really is peculiarly within the ken of Congress, and I would urge the Court to leave it there. Thank you very much.

QUESTION: Thank you, Mr. Lipsey. Mr. Russell, you have eight minutes remaining.

REBUTTAL ARGUMENT OF TOMAS MORGAN RUSSELL

ON BEHALF OF THE PETITIONER

MR. RUSSELL: Thank you, Your Honor. I'll make just a series of very quick points here in response, in rebuttal, and then save the Court some time, I hope.

First of all, the fact that a patent has not issued on a product really is independent and free and has nothing to do with the exercise of the police power.

The police power can be used by the states to legitimately regulate competition, whether or not a product is patented. I cite you to the Sears case itself when it discussed what laws were applicable to patented procucts, and they even cited the antitrust laws.

The citation was to IBM, in the 1936 decision, and the United Shoe Machinery case in 1922. And that certainly is, is as true here. Florida, Florica and 11 other states have exercised their police power, saying that this is an improper method of competition between competitors. And it's within their power to do so. That power was never delegated --

QUESTION: Sears -- Sears -- Sears-Compco you can say was an exercise of state police power too, if

you mean by police power the reserve power of any state to operate in an area unless prohibited by Federal law.

MR. RUSSELL: Well, I'm using the term here in the sense that it regulates for the general welfare of the public the health, safety and commerce.

QUESTION: How, how does that distinguish -- are there, are there some state laws in your view that wouldn't come under the state police power?

MR. RUSSELL: I would -- I can't think of one right off hand, Your Honor, but --

QUESTION: Usually it's used just as a, as a shorthand for those laws the state has, has a right to enforce, really.

MR. RUSSELL: Well, I think it certainly is clear here that the state has the authority and the power to regulate the conditions of competition within its borders.

QUESTION: You, you may be right, but I think it doesn't depend on whether or not you, you, you use the word "police power" in any specialized sense.

MR. RUSSELL: Yes.

QUESTION: Mr. Russell, can I go back for a second to the Sears case? That was -- Sears copied the Stiffel lamp; was that right?

How did they make the copies there? Does the

record tell us?

MR. RUSSELL: No, it does not, Your Honor.

QUESTION: Supposing the record told us that they did it by a molding process or something like, that they -- I don't know how -- how you'd copy a lamp, but could Illinois have forbidden that one method of copying but lets that any other method is okay?

MR. RUSSELL: I think just as Florida could Illinois could too.

QUESTION: So that --

MR. RUSSELL: But there is, there is, there --

QUESTION: So that -- the only thing wrong there was the total prohibition.

MR. RUSSELL: It was a total prohibition in Sears. Now remember, they couldn't do it in Florida because the Florida statute only applies to boats.

I wanted to call the Court's attention to --

QUESTION: It's more than just that it isn't a total prohibition. I mean, that's not very satisfying. You can do anything so long as it's a total prohibition.

Isn't there something different about this kind of prohibition, that it's a prohibition that relates to the physical hull, to what you can do with the physical hull?

Not with the drawings, not with the ideas, not with the invention, but what you can do with an identifiable physical hull, just as what was, in Sears, in your, your example, what you could do with the physical lamp.

MR. RUSSELL: Yes, I quite agree.

QUESTION: In other words, you have a statute saying, you cannot use the physical lamp when you're trying to make a copy of it.

MR. RUSSELL: That would be the parallel. I wanted to just point out that the fact that --

QUESTION: The prohibition applies to something that a copier owns. I mean, he bought the hull.

MR. RUSSELL: He bought the hull.

QUESTION: It's his hull.

MR. RUSSELL: Justice White, you're absolutely correct.

QUESTION: And the state says, awfully sorry, but you can't make a mold of your hull.

MR. RUSSELL: To copy it and make identical products for commercial purposes.

QUESTION: Yes.

MR. RUSSELL: Yes, that's correct. That is what the statute does.

QUESTION: You cannot use your hull, you cannot use your hull, reproduce it in that way for commercial purposes.

MR. RUSSELL: For commercial purposes, that's right. Because it is the equivalent of taking the investment that the original manufacturer made in producing that design and producing the plug mold.

QUESTION: Well, he, he -- he's marketed it. He's getting everything out of it he thought he was getting.

MR. RUSSELL: Not unless he sells enough units.

QUESTION: Well --

MR. RUSSELL: He may not be able to sell enough, if the copier's in the marketplace, in order to recoup his investment.

QUESTION: That's, that's the problem with everybody who doesn't have a patent. That's the risk you take, I suppose.

MR. RUSSELL: That is certainly a risk of the copier. I wanted to point out --

QUESTION: Suppose, suppose that someone took Bonito's hull and they copied it by reverse engineering, not by molding?

MR. RUSSELL: Absolutely --

QUESTION: And then some -- all right, wait a minute --

MR. RUSSELL: Legal.

QUESTION: Then someone else takes that and copies it by directing molding. Violation?

MR. RUSSELL: It would technically be within the statute, I think.

QUESTION: But there's no, there's no -- it's clearly not patentable.

MR. RUSSELL: Clearly not patentable. But the person that, that -- I think, think the rationale for the statute still applies, Justice Kennedy, because by the reverse engineering, that copier is in effect rebuilding that original product.

He is making the investment in the product development and then bringing that product to market. So the rationale of not taking the other man's investment, I think, still applies here.

I also think it's important to point out that this Court has recognized in at least two occasions that unpatented improvements can still be of immense value to society. Certainly a trade secret is not patented and can be of value to society.

The third point, I would like to point another limitation on the statute, which is that the statute is

not limited to manufacturers. The statute can be invoked by a distributor, it can be invoked by a retailer, it could be invoked by anyone.

The point was made that trade secret rights, or that the rights under the statute exist in perpetuity. I think the same thing is certainly true with respect to trade secrets.

They exist in perpetuity until they're revealed in one way or another. And the right to not copy the master recording in Goldstein certainly was in perpetuity, and the court said that the durational limitation did not render it invalid.

The state -- the statute here does not take the direct molding process out of the public domain. It remains in the public domain. It can be used by anyone for any other purpose.

No boat manufacturer can use the Florida statute to stop someone from copying teapots using the direct molding method. The molding method remains completely in the public domain, and it does not create a right to the manufacturer to exclude anyone else from using the direct molding process.

QUESTION: Mr. Russell, let me ask one other question I meant to ask earlier. Would it violate the Florida statute to take the boat to Georgia and do the

copying there?

MR. RUSSELL: I don't know offhand whether Georgia has such a statute.

QUESTION: Assuming it does not have such a statute.

MR. RUSSELL: Well, then, it certainly would not violate Georgia law.

QUESTION: Oh, so it just -- it only applies in-state --

MR. RUSSELL: It's an in-state statute.

QUESTION: I see.

MR. RUSSELL: I wanted to point out that the --

QUESTION: If they caught the Georgia copier in Florida, they could get an injunction against him.

MR. RUSSELL: If they can find him in Florida, I believe you're right, Justice White.

QUESTION: But I'm assuming he did all the copying in Georgia. So they caught him in Florida --

MR. RUSSELL: In the Interpart case, it was upheld by the Feceral circuit, the actual copying was done in Formosa. That case involved automobile rear view mirrors, and the copying was done in Formosa.

QUESTION: So you would say if the statute would cover out-of-state copying --

MR. RUSSELL: It could if you can get

jurisdiction of him within Florida.

QUESTION: I see.

MR. RUSSELL: That's exactly what happened, Justice Stevens, in the Interpart case. The parts were copied in Formosa and they were imported into California, big automobile market. And the action was brought in California applying the California anti-direct molding statute.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Russell. The case is submitted.

(Whereupon, at 11:54 o'clock a.m., the case in the above-entitled matter was submitted.)

CERTIFICATION

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NO. 87-1346 - BONITO BOATS, INC., Petitioner V. THUNDER CRAFT BOATS, INC.

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BY alan friedman

(REPORTER)