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SUPREME COURT OF FLORIDA
STATE OF FLORIDA

BONITO BOATS, INC.,

Plaintiff/Appellant,

vs.

CASE NO. 68,829

THUNDER CRAFT BOATS, INC.,

Defendant/Appellee.

_____/

REPLY BRIEF OF APPELLANT

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On Appeal from the Fifth District Court of Appeal
State of Florida

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SUMMARY OF ARGUMENT

Appellant in its Initial Brief illustrated why Section 559.94 is a valid State regulation in the area of predatory trade practices and promotion of invention and innovation in the boat manufacturing industry. Section 559.94 initially must be presumed constitutional and upon careful analysis, it clearly does not conflict with the federal patent system.

Appellee's Answer Brief asserts that Sears/Compco[1] has wiped the slate clean and that the States are prohibited from "intruding" at all into the patent realm. The Goldstein, Kewanee and Aronson cases, however, reaffirmed the State's authority to act in areas relating to invention and protecting intellectual property. The clear message of these controlling cases is that interaction between the federal patent system and the States' regulatory authority is assumed to exist. The determination for the courts is the degree of interaction permissible under under federal preemption standards. This is the essence of the analysis found in the Kewanee case.

Appellee further asserts that an undefined, "no-holds-barred" climate of "free competition" has attained a "threshold" status in federal patent policy and is, therefore, the "primary

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1 Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) are referred to collectively as "Sears/Compco."

policy" of the patent system. However, these nihilistic notions have no basis in the law as demonstrated by the Sears/Compco, Goldstein, Kewanee and Aronson cases. Rather than being anti-competitive, Section 559.94 serves the interests of free competition by (1) encouraging the introduction of original innovative designs in the market for fiberglass boats and (2) prohibiting a negative and inequitable commercial practice in the industry, the direct molding process.

Section 559.94 does not remove the original design of fiberglass boats from the public domain. It merely restricts one discrete method of duplicating the original manufacture's production molds, which are the product of a considerable investment in terms of dollars and design time.

As the Interpart case correctly understood, the statute does not conflict with the federal patent laws because the two laws have different objectives. The benefits to society are obvious. Section 559.94 merely reflects a legislative choice of providing "another form of incentive to invention," while seeking to maintain standards of commercial practices in the boat manufacturing industry.

I. Kewanee Reaffirmed the States' Authority to Regulate in the Area of Unfair Compensation and Predatory Trade Practices so long as the State Law does not Stand as an Obstacle to Accomplishment of the Purposes and Objectives of the Patent Law.

A. Appellee's Brief Distorts the Purposes and Objectives of the Patent Laws.

A heightened level of "competition" is no doubt one of the desired results of the protections afforded by the federal patent laws; however, Appellee in its Answer Brief totally distorts the policy objectives of the patent laws. Appellee repetitiously asserts that "free competition" is the "overriding policy" objective of the patent laws and that this "overriding policy ... explains the last Supreme Court case in this area, Kewanee Oil ...." Appellee Reply Brief, at p. 13. Rather than rely on Appellee to explain the underpinnings of Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974), and the federal patent laws, Appellant suggests that the task is better left to the Supreme Court in its more recent decisions. In the post-Kewanee case of Aronson v. Quick Point Pencil Co., 440 U.S. 259, 262 (1979), the court stated:

* * *

> In Kewanee Oil Co., ... we reviewed the purposes of the federal patent system. First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public

> domain remain there for the free use of the public. (Citation omitted.)

(Emphasis added.)

Thus, the policies and purposes of the patent laws have been succinctly set forth by the Supreme Court itself, and Appellee's simplistic, "dog-eat-dog" notions of what constitutes free competition are not mentioned. Moreover, Appellee's assertions about the "primacy of free competition" and its stature as a "threshold question" in patent policy cannot be found in the case law relevant to this appeal.[2]

B. Section 559.94 does not Conflict with the Objectives and Purposes of Patent Laws as set forth by the Supreme Court in Kewanee.

Appellant shall not repeat here its detailed analysis of the application of Section 559.94 and its minimal impact on the purposes and objectives of the patent laws as actually set forth in Kewanee. This discussion is found in Appellant's Initial Brief, Part I, C and Part II, pp. 15-20. What is

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[2] Appellant does not deny that certain interests involving "free competition" are relevant to federal patent policies. However, it is curious that the term "free competition" is found only once in the majority opinion of the Sears case, and is absent from the majority opinions in the Compco, Goldstein and Kewanee cases. See, Sears, supra, 376 U.S. at 231. One has to ask how such an "overriding policy" could be relied upon by the Supreme Court without being discussed in full or whether such an "overriding policy" is the invention of the Appellee.

manifestly clear from a comparison the principles set forth in Kewanee and the operation of Section 559.94, however, is that Section 559.94 (1) is a permissible State law attempt to "foster and reward inventions" and discoveries, (2) has no adverse impact on the interest of disclosure of "invention" to the public of new ideas, and (3) does not remove "ideas" from the public domain.

C. Kewanee Stands for the Broad Principle that States are Permitted Limited Intrusions into the Patent Realm.

Appellee, in its Answer Brief at p. 13, boldly asserts that Kewanee cannot be used "as precedent for the broad principle that States are permitted limited intrusion into the patent realm." If this were so, how does one explain the following statement from Kewanee?

> Just as the States may exercise regulatory power over writings so may the States regulate with respect to discoveries.

416 U.S. at 479. Or this statement:

> States may hold diverse viewpoints in protecting intellectual property relating to invention as they do in protecting the intellectual property relating to the subject matter of copyright.

Ibid.

Moreover, if Appellee is correct that the States are not permitted to intrude at all into the patent realm, how does one explain the Kewanee court's introduction to its preemption analysis?

> Having now in mind the objectives of both the patent and trade secret law, we turn to an examination of the interaction of these systems of protection of intellectual property -- one established by the Congress and the other by a State -- to determine whether and under what circumstances the latter might constitute "too great an encroachment on the federal patent system to be tolerated."

Id., at 482. (Emphasis added.)

Appellee is obviously mistaken on this crucial point involving the permissible scope of state power in areas relating to patents. The federal patent system and the States' systems of laws regulating commercial practices inevitably "interact" and "encroach" on one another. "Limited intrusions" into the "patent realm" are assumed to exist. The essence of the Kewanee analysis is the court's assessment of the degree of the intrusion.

The States' authority to act in the area of patents was reiterated by the Supreme Court in the post-Kewanee case of Aronson v. Quick Point Pencil Co., 440 U.S. 263 (1979), which involved a State's enforcement of a royalty agreement covering sales of an article, which, subsequent to the making of the agreement, was deemed not eligible for a patent. Even though the royalty agreement covered sales of articles which were in the "public domain," the Supreme Court upheld the authority of the State to enforce the royalty agreement. Prior to applying the principles set forth in Kewanee to reach its decision upholding the States' authority, the court stated:

> Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates

> to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.

The operation of Section 559.94 represents a minimal encroachment on the federal patent system, much less so than that of the trade secret protections addressed in Kewanee. Moreover, the protections of Section 559.94 serve identical goals to that of trade secret law, "maintenance of standards of commercial ethics and encouragement of invention ...." Kewanee, supra, 416 U.S. at 481. As such, the constitutionality of Section 559.94 cannot be doubted. By enactment of Section 559.94, the State of Florida is merely exercising its authority to regulate unfair competition and predatory trade practices. As with the authority to enforce commercial agreements addressed in Aronson, this regulatory authority has been traditionally the domain of state law.

Appellee, in its Answer Brief, asserts that there is nothing left to the States after Sears/Compco, that, in effect, the State of Florida is now powerless to legislate in the area of unfair competition and predatory trade practices. Appellee's Brief, pp. 25-30. Not only is this notion directly at odds with the three Supreme Court cases which have followed Sears/Compco, it assumes that the entire "misappropriation doctrine" as enunciated in International News Service v. Associated Press, 248 U.S. 215 (1918), was overruled sub-silentio by Sears/Compco. However, it is not this court's duty to curtail the scope of state authority on the strength of such a slender reed. Moreover, the

vitality of the misappropriation doctrine is recognized in both the state and federal courts.[3] See Appellant's Initial Brief at pp. 27-28.

II. Section 559.94 is not Anticompetitive; to the Contrary, it Serves the Interest of Competition by Encouraging the Introduction of New Designs in the Fiberglass Boat Industry.

A. "Free Competition" is not the Equivalent of the Absence of Standards for Commercial Ethics.

Appellee in its Answer Brief seems to equate the concept of "free competition" with "no holds barred" or "anything goes" in the commercial environment. The realities economic interaction in the marketplace are not so simplistic or one-dimensional. The Supreme Court in Kewanee understood this when it reaffirmed the State's authority to regulate commercial ethics by enforcement of trade secret protections.

Just like the underpinnings of trade secret protection, the enactment of Section 559.94 reflects the Florida Legislature

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3 Appellee also asserts that the "misappropriation doctrine" is not a part of the Florida common law of unfair competition and thus, Section 559.94 "cannot be upheld on the ground that it is included in the genre of unfair competition." Appellee's Answer Brief at p. 27. Surely, Appellee is not suggesting that the Florida Legislature's law making authority is limited by the scope of Florida common law existing at any one time. If this were true, the entire body of Florida laws would be saddled to horse and buggy days and tied to the Rule in Shelly's case.

notions of commercial ethics and basic fairness as applied to the fiberglass boat manufacturing industry. Section 559.94 seeks to prohibit the unscrupulous from misappropriating the investment and cost of design which is expended in the creation of the production molds which are then used to produce an "original manufactured vessel hull or component part." The prohibition of such inequitable conduct can hardly have a negative impact on the interests of "free competition."

As both courts and commentators have agreed in the past:

> ... Competition is a desideratum in our economic system, but it ceases to serve an economic good when it becomes unfair. The concept of fair play should not be shunted aside on the theory that competition in any form serves the general good. Only fair competition does that. Unfair competition is not competition at all in the truest sense of the word.

Callman, Unfair Competition, §15.07 at 20, quoting Schulenburg v. Signatrol, Inc., 50 Ill. App. 2d 402, 200 N.E.2d 615 (1964). Contrary to the simplistic assertions of Appellee in its Reply Brief, promoting competition by use of the State's regulatory power is considerably more complex than leaving the unscrupulous to openly engage in predatory trade practices. Section 559.94 reflects the Florida Legislature's realization that the direct molding process is a commercial evil which serves no positive economic purpose.

B. Competition is Fostered by the Introduction of New Ideas and Articles into the Marketplace.

The Supreme Court in Kewanee recognized that trade secret protections may be restrictive to a limited degree, but they have a positive effect on society because they can

> encourage the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws.

Kewanee, supra, 416 U.S. at 493. Such an incentive to innovation fosters competition by encouraging investment in new ideas and discoveries which are not necessarily worthy of patent protection.

In fact, this reaffirmation of State's authority to regulate in the area of intellectual property is the very essence of Kewanee and is that part of Kewanee which has particular significance in the case at bar. In Kewanee, the Supreme Court acknowledged that there may be a multitude of ideas or discoveries which are important to society and therefore worthy of promotion, even though the class of ideas or discoveries may not be eligible for the protections provided by the federal patent laws. As the Kewanee court so clearly stated:

> Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention.

Kewanee, supra, 416 U.S. at 484. By the same token, Section 559.94 is not offensive to the policies of the federal patent law, it is merely a compatible state law which encourages

innovation and invention in an area in which the federal patent law does not reach. By the passage of Section 559.94, the Florida Legislature has made a determination that it is beneficial to society to encourage investment and innovation in manufacture of fiberglass boats, rather than risk stagnation brought on by predatory trade practices like the direct molding process. The result will be the elimination of a recognized unfair commercial practice, the direct molding process, the enhancement of the competitive environment by the introduction of new, original designs of fiberglass boats.

III. The Application of Section 559.94 does not Remove or Preclude the Copying of Articles which are in the Public Domain.

A. Section 559.94 does not Remove the Original Design of Bonito Boat Model 5VBR from the Public Domain.

Appellant is in full agreement that one of the policies of the patent law is "that which is in the public domain cannot be removed therefrom by action of the States." Kewanee, supra, 416 U.S. at 481. It is critical to recognize, however, what exactly is placed in the public domain when an original fiberglass boat is sold to the public. It is the specific design of the fiberglass boat or, in other words, the specific configuration of the hull and component parts. Clearly, Section 559.95 does not remove this design from the public domain; Section 559.94 permits anyone to copy the design in every detail.

In Interpart Corp. v. Italia, 777 F.2d 678 (Fed. Cir. 1985), the Federal Circuit correctly understood that nothing is removed from the public domain by application of the California Plug Mold Statute which is similar to Section 559.94. There the court stated:

> The statute does not preclude one from photographing, measuring, or in any way utilizing the concept of the design of the product. It does not preclude copying the product by hand, by using sophisticated machinery, or by any method other than the direct molding process.

Id. at 685 (emphasis added). Thus the design of the "original manufactured hull or component part" is left unprotected by Section 559.94; the specific design is free for anyone to make, use or sell.

B. The Purpose of Section 559.94 is not to Protect the "Design" of the Article, but the Original Manufacturer's Property Interest in the Production Mold, which, Presumably, has never Passed into Public Domain.

Appellee, in its Answer Brief, completely misses the thrust and purpose of the Section 559.94 when Appellee complains that Section 559.94 somehow removes an original hull design from the "public domain." Section 559.94 does not provide protection for the "design" of an "original manufactured vessel hull ...," for it clearly allows duplication of the design in every detail. What Appellee fails to understand is, Section 559.94 provides a limited amount of protection directed toward the original

manufacturer's production molds, not the design of the end product which is sold to the public. This distinction is abundantly clear from the statutory definition of the "Direct Molding Process":

> (a) "Direct molding process" means any direct molding process in which the original manufactured vessel hull or component part of a vessel is itself used as a plug for the making of the mold, which mold is then used to manufacture a duplicate item.

(Emphasis added.)

The Interpart court correctly relied on this distinction in its analysis of the California Plug Mold statute:

> The statute prevents unscrupulous competitors from obtaining a product and using it as the "plug" for making a mold. The statute does not prohibit copying the design of the product in any other way; the latter, if in the public domain, is free for anyone to make use, or sell.

Interpart, supra, 777 F.2d at 685. (Emphasis added.)

The original manufacturer's production molds, which are themselves the product of the original manufacturer's willingness to invest substantial sums of money in their creation, are not a part of the public domain. Quite to the contrary, the original production molds are likely few in number and kept under lock and key at the production facilities of the original manufacturer. Quite clearly Section 559.94 addresses the inequity inherent in the direct molding process which enables unscrupulous competitors to duplicate the original production molds while investing next to nothing in their creation. The mere fact of copying is not

considered by the Legislature to be an evil and, in fact, is fully permitted.

Unlike the Appellee and the courts below, the Federal Circuit in Interpart, with its expertise in the patent law area, fully understood the operation and effect of the California Plug Mold Statute. After considering the patent policies set forth in Kewanee, the Interpart court correctly stated:

> The California law does not "clash" with the federal patent law; the two laws have different objectives. Absent an existing patent right, we see nothing in the federal patent statutes that conflicts with California's desire to prevent a particular type of competition which it considers unfair.

Ibid. This ruling is entirely consistent with Kewanee and its analysis of the interaction of state and federal authority in the area of patent law.

IV. Section 559.94 Carries with it a Presumption of Constitutionality, which in this Case, Compels a Finding that Section 559.94 is Constitutional.

A. Section 559.94 is Presumed Constitutional.

The touchstone of any analysis of possible federal presumption of state law is the presumption of constitutionality possessed by all laws enacted by the state legislature. This overriding principle cannot be ignored in spite of the fact that it has been totally ignored by Appellee in its Answer Brief.

As this Court has recognized in the past,

> ... [the court] has a duty, if reasonably possible and consistent with constitutional rights, to resolve all doubts as to the validity of a statute in favor of its constitutionality and to construe it so as not to conflict with the Constitution.

State v. Gale Distributors, Inc., 349 So. 2d 150, 153 (Fla. 1977).

B. The Case at Bar is very Unlike Sears/Compco -- Sears/Compco involved an Absolute Prohibition of Copying and not a Specific Unfair Method of Copying.

As a threshold matter, it is clear that the instant case is not on all fours with the Sears/Compco cases. However, Appellee in its Answer Brief at Page 8 makes the following assertion -- "The facts of Sears and Compco are virtually indistinguishable from the instant case and the policies implicated in those cases are the same policies at issue here."

The "facts" of Sears/Compco involved a state law which was an absolute prohibition of copying another's product. Section 559.94, on the other hand, permits duplication "with impunity," "at will" or whatever expansive term one wishes to use.

The "policies" at issue in Sears/Compco was whether it was permissible for a State to

> extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents.

Sears, supra, 376 U.S. at 231. The law at issue in Sears/Compco was offensive to federal policy on both counts -- the absolute prohibition of copying another's product was without time limitation and was applicable without regard to the product's level of invention or originality. Section 559.94, however, not only permits copying boat hull designs in every detail, it also has no time period in which duplication is prohibited. Thus, the facts of Sears/Compco and the policies implicated could not be more different.

C. Section 559.94's Presumption of Constitutionality Compels a Reversal of the Decision Below.

As demonstrated above, the case at bar is far afield from the facts and issues raised by Sears/Compco. Moreover, the more recent pronouncements of the Supreme Court in Goldstein v. State of California, 412 U.S. 546 (1973), Kewanee Oil Co. v. Bicron Corp., 416 U.S. 480 (1974), and Aronson v. Quick Point Pencil Co., 440 U.S. 263 (1979), reaffirm the State's authority to "regulate with respect to discoveries" and "to hold diverse viewpoints in protecting intellectual property ...." Kewanee, supra, 416 U.S. at 429.

As in Goldstein, this authority is

> premised on the great diversity of interests in our nation -- the essentially non-uniform character of the appreciation of intellectual achievements in the various states.

Kewanee, supra, 416 U.S. at 429.

The same "diversity of interest" is the basis of the State of Florida's authority to enact Section 559.94 for the purposes of encouraging investment and innovation in fiberglass boat industry and prohibiting an identifiable evil in the industry.

There can be no question of the existence of the State's authority to regulate in this area which has long been the domain of states. There also can be no question that the case presented by enforcement of Section 559.94 is quite dissimilar to that presented by the Sears/Compco cases, both in application and effect. If somehow there remains a doubt about the reach of the State of Florida's authority to prohibit "a particular type of competition which it considers unfair," in spite of the ruling in Interpart Corporation v. Italia, supra, it is not the province of the courts of Florida to define narrowly the scope of its States' power. Quite the opposite, the courts of Florida are duty-bound to "resolve all doubts as to the validity of a statute in favor of its constitutionality." State v. Gale Distributors, supra, 349 So. 2d at 153.

CONCLUSION

The Florida Legislature has chosen to act in area of unfair competition and predatory trade practices by the passage of Section 559.94. This choice is based upon the States' inherent right to regulate in area of commercial practices, an area

which has traditionally been the domain of the States. In due deference, the courts must resolve all doubts in favor of the permissible exercise of state power.

The Goldstein, Kewanee and Aronson cases consistently affirm the authority of the States to legislate in areas relating to the federal patent system. Moreover, the application of Section 559.94 is consistent with the purposes and objectives of the patent laws as set forth in Kewanee and does not give patent-type protection like the laws struck down in Sears/Compco case.

Based upon the foregoing, the decision of the Fifth District Court of Appeal affirming the trial court's Order dismissing Appellant's Complaint should be reversed and remanded for further proceedings.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Reply Brief of Appellant has been furnished to: HAL K. LITCHFORD, ESQ., Davis, Litchford, Downing & Christopher, One South Orange Avenue, Suite 500, Orlando, Florida 32802, this 30th day of September, 1986, by U.S. Mail, postage prepaid.

John Schoene

9/30/86