

## FEDERAL CIRCUIT PATENT LAW CASE UPDATE

## Crater Corp. v. Lucent Techs., 04-1349 (Fed. Cir. Sept. 7, 2005) (Schall, J.)

The court affirmed the determination that information held by the United States Government as intervener was subject to the state and military secret privilege. This led the district court to dismiss Crater's state law trade secret misappropriation and breach of contract claims related to Crater's patent for an under water fiber optic coupler because there would be insufficient information available for Crater to advance the case and for Lucent to defend. The court reversed this dismissal to allow additional development of the record for these issues. Judge Newman dissented, arguing that on remand the district court should go further and require in camera proceedings for Crater's claims.

Crater owns U.S. Patent No. 5,286,129, relating to a fiber optic coupler and technology to connect and disconnect fiber optic cables under water. In a previous appeal, the court affirmed the dismissal of Crater's patent infringement claims, but remanded its state law claims of trade secret misappropriation and breach of contract.

After Crater sued Lucent on the patent, the U.S. government intervened. It raised the State Secret and Military privilege in order to keep secret the information about the government's use of the technology, which came through Lucent. The district court reviewed 26,000 documents in camera to conclude that none of this information could be released to Crater in response to its discovery requests. This led the district court to dismiss Crater's claims under the logic that without the information held secret due to the government's privilege: (i) Crater could not advance its case; and (ii) Lucent could not defend itself. The court found that privilege properly invoked.

We agree with the government that Secretary Danzig and Acting Secretary Johnson were not required to personally review each and every one of the 26,000 documents at issue in order for the government to properly invoke the state secrets privilege. Although Reynolds requires that there be "actual personal consideration" by the head of the pertinent government department, 345 U.S. at 8, we think it sufficient that the Secretary of the Navy and later the Acting Secretary were informed of the nature and scope of the documents sought in discovery, and that each then made the ultimate policy determination, based on his personal knowledge, that disclosure of the material sought would jeopardize a legitimate state secret and would pose a threat to national security.

The court, however, did not follow the district court's logic based on the existence of the privilege.

The second issue on appeal is whether, in light of the government's proper invocation of the state secrets privilege, the district court correctly determined that none of Crater's claims could proceed without impinging upon the privilege.

The court observed that Lucent might defend both trade secret misappropriation and breach of contract without ever getting to state secret information, but that the record on appeal was not sufficiently developed on these points. For example, it was not clear what trade secret information would exist in the patented coupler. In addition, it was not clear under the applicable state law whether there was a contract.

[I]f there are trade secrets and/or there was a contract, an understanding of the precise nature of the trade secrets and the terms of the contract is essential to the analysis of whether Crater's misappropriation of trade secrets and breach of contract claims may proceed in the face of the assertion of the privilege.

Judge Newman dissented, arguing that the scope of the issues on remand should include a more nuanced treatment of the state secret information.

I agree that further proceedings are warranted, and to that extent I concur in the remand. However, this court has placed obstacles to those proceedings that may be insurmountable in view of the court's endorsement, without review, of the full scope of the claim of state secrecy. Our order that Crater must identify and establish the secret information that it provided to Lucent in connection with the Crater Coupler does not remove this information from the government's secrecy order. . . . None of us on this panel has inspected any of the information for which the claim is made, nonetheless ratifying the withholding of the 26,000 documents in the government's file. . . . It is far from clear that Crater can now place this information on the public record or otherwise implement this court's remand. . . . We should remand this case for in camera proceedings that would protect the information from public disclosure, and allow this dispute to come to closure. Trials in camera of issues subject to secrecy restraints are not new, and such trial would be the appropriate procedure in this case.

