

**Privilege-Wise and Patent (and Trade Secret)-Foolish?:**  
**How the Courts' Misapplication of the Military and State Secrets Privilege**  
**Violates the Constitution and Endangers National Security**

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**I. Introduction**

When New England inventor Philip French had his epiphany 15 years ago, he didn't dream it would lead to an invention that would be pressed into service in a top-secret government project, or spawn an epic court battle over the limits of executive power. He was just admiring a tennis ball.<sup>1</sup>

The story behind the Federal Circuit's 2006 decision in *Crater Corporation v. Lucent Technologies* appears to be one of duplicity, culminating in the exploitation of French and two other inventors by the Navy and its contractor, Lucent.<sup>2</sup> At the behest of Lucent, the three inventors had shared their patented technology and trade secrets. After enthusiastically pronouncing their technology ideal for its naval project, however, Lucent denied compensation to the inventors. When they sought legal recourse, the Federal Circuit torpedoed their claims by applying the "Military and State Secrets Privilege" (Privilege). The decision created several serious problems, including a likely constitutional violation and a long-term threat to national security. Yet the *Crater* court failed to address either of these problems, which are increasingly

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<sup>1</sup> Kevin Poulsen, *Secrecy Power Sinks Patent Case*, WIRED, Sept. 20, 2005, <http://www.wired.com/science/discoveries/news/2005/09/68894>.

<sup>2</sup> *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260 (Fed. Cir. 2005), *cert. denied*, 547 U.S. 1218 (2006); Poulsen, *supra* note 1.

likely to arise in light of the government's burgeoning use of the Privilege.<sup>3</sup> This Article examines these problems and suggests an alternative approach to applying the Privilege.

Few disagree with the need for the Privilege, which shields information that could endanger the security of the nation from public exposure.<sup>4</sup> Unfortunately, the *Crater* court not only recognized the Privilege, but also relied on it to preclude the plaintiff from obtaining any meaningful discovery from Lucent and the Navy, effectively and unnecessarily shutting down the judicial process.<sup>5</sup> By permitting the Privilege to extinguish the plaintiff's claims, the *Crater* court triggered two concerns. First, rulings such as *Crater* prevent inventors from obtaining compensation when the government engages in unconstitutional "takings" of their trade secrets. This by itself should have given the *Crater* court pause. Second, the destruction of inventors' claims discourages military-related innovation.

Most significantly, the primary casualties of this approach are individual inventors and small companies, both of whom tend to be unfamiliar with the defense-industrial complex. This

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<sup>3</sup> The Privilege has been invoked almost five times more often in the past eight years than during the height of the cold war. *Morning Edition: Administration Employing State Secrets Privilege at Quick Clip* (NPR radio broadcast Sept. 9, 2005), available at <http://www.npr.org/templates/story/story.php?storyId=4838701> (citing [Openthegovernment.org](http://www.openthegovernment.org), which contended that from 1953-76, the Privilege was invoked only four times, but that from 2001-05, it was invoked twenty-three times); see also Robert M. Chesney, *State Secrets and the Limits of National Security Litigation*, 75 GEO. WASH. L. REV. 1249, 1291-92 (2007). Indeed, in the Judiciary Committee's report on the proposed State Secrets Protection Act, the Committee noted that "the Bush administration has raised the Privilege in over 25 percent more cases per year than previous administrations, and has sought dismissal in over 90 percent more cases." 154 CONG. REC. S198 (daily ed. Jan. 23, 2008) (statement of Sen. Kennedy).

<sup>4</sup> *Ellsberg v. Mitchell*, 709 F.2d 51, 57 (D.C. Cir. 1983) (finding that "the state secrets doctrine pertains generally to national security concerns," and it is thus viewed "as both expansive and malleable"); see *Jabara v. Kelley*, 75 F.R.D. 475, 483 n.25 (E.D. Mich. 1977) (noting "the term 'military or state secrets' is amorphous in nature," but that it should be defined broadly, "referring to the military and naval establishments and the related activities of national preparedness"); *Pollen v. Ford Instrument Co.*, 26 F. Supp. 583, 584 (E.D.N.Y. 1939) (noting the Privilege bolsters "the inherent right of self-preservation"); JOHN WIGMORE, WIGMORE ON EVIDENCE VIII 794 (John T. McNaughton rev., 1961) (noting the Privilege protects "matters relating to international relations, military affairs and public security").

<sup>5</sup> Poulsen, *supra* note 1 (quoting Steven Aftergood, Director of the Federation of American Scientists' Project on Government Secrecy); see *supra* note 4.

outcome runs counter to the Department of Defense's recently stated desire to expand procurement beyond the traditional large-company industrial base to increase access to cutting-edge communication and computer technology crucial to national security.<sup>6</sup> Yet, as demonstrated in *Crater*, powerful companies are the ones that benefit from a court's misapplication of the Privilege; this benefit stems from the knowledge that the Privilege gives them immunity from stealing individuals' and small business' innovations for military use. Thus, as one commentator noted, this case is "an especially pointed . . . lesson for [smaller] inventors who are contemplating approaching a company or others regarding licensing their technology," as well as a signal that long-term government goals can be taken hostage by short-term litigation strategy.<sup>7</sup>

This Article argues that an alternative strategy to the Federal Circuit's approach would avoid both the constitutional takings problem and the unnecessary encumbrance on the nation's defense goals. Rather than permitting the Privilege to result in an absolute concealment of information, courts should, where possible, apply more limited procedural safeguards that could protect sensitive information. In many situations, information could be divulged to the plaintiffs without wholesale public disclosure, permitting the case to proceed.

Part I of this Article describes how the *Crater* plaintiffs came to sue in federal court, and illustrates how more sophisticated commercial actors can take advantage of small inventors. This

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<sup>6</sup> OFFICE OF THE DEPUTY UNDER SEC'Y OF DEF. (INDUS. POLICY), TRANSFORMING THE DEFENSE INDUSTRIAL BASE: A ROADMAP (2003). The military has termed this focus on the integration of technology as "the Revolution in Military Affairs." See e.g., Andrew F. Krepinevich, *Cavalry to Computer; the pattern of military revolutions*, THE NATIONAL INTEREST, Fall 1994. [http://findarticles.com/p/articles/mi\\_m2751/is\\_n37/ai\\_16315042/](http://findarticles.com/p/articles/mi_m2751/is_n37/ai_16315042/); David Jablonsky, *U.S. Military Doctrine and the Revolution in Military Affairs*, PARAMETERS, Autumn 1994, available at <http://www.carlisle.army.mil/usawc/parameters/1994/jablonsk.htm> (early uses of the term for describing transformative change in military technology).

<sup>7</sup> Posting of Douglas Sorocco to Phosita: An Intellectual Property Law Blog, And You Thought You Were Having a Bad Day, <http://dunlapcoddling.com/phosita/2005/09/and-you-thought-you-were-having-a-bad-day.html> (Sept. 22, 2005 21:51 EST) (commenting on the effective destruction of *Crater*'s patent claims by the government).

is accompanied by a discussion of how the development and evolution of the Privilege led to the *Crater* decision. In Part II, the Article considers the Takings Clause violation emanating from *Crater's* destruction of the value of the inventors' trade secret, as well as the possibility of an analogous violation of patent rights. Part III explains that the damage is not limited to a purely legal injury; destroying the value of an inventor's efforts will discourage the technological innovation that the government has stated will be key to our nation's future defense plans. In light of the aforementioned problems, Part IV concludes that courts should, whenever possible, reject the government's attempt to suppress the designated information. Instead, courts should decide how to apply the Privilege only after taking into account both the nature of the privileged information involved and the effect of limited access to it. Finally, the Article outlines some less-restrictive protective measures that courts could apply. A bill currently under Senate consideration, the State Secrets Protection Act, proposes some of these measures.<sup>8</sup> However, this Article argues that those measures do not go far enough in allowing an inventor's claims to proceed in court. Courts should permit the dismissal of these claims only when no sufficiently protective procedural measures exist, because it is only in these circumstances that courts avoid both the takings problem and the unnecessary constraint on the incentive to invent.

## **II. Crater Corporation v. Lucent Technologies Corp.**

### **A. The Story of the Grab for an Individual Inventor's Technology.**

The story of Crater Corporation is a cautionary tale for inventors (particularly individual and small-business inventors) of devices with potential military applications. In 1991, Philip French and his co-inventors, Charles Monty and Steven Van Keuren, filed a patent application on a coupling device that links pipes or cables together without other complicated and expensive

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<sup>8</sup> State Secrets Protection Act, S. 2533, 110th Cong. (2008).

mechanisms.<sup>9</sup> They were having little success marketing their invention until they developed a commercial relationship with Lucent Technologies, a subsidiary of AT&T.<sup>10</sup> Lucent expressed an interest in obtaining a prototype of the mechanism so that it could evaluate it for use as an airtight “wetmate” in underwater fiber optic networks.<sup>11</sup> Lucent explained that, if appropriate, the device would be used to fulfill a classified contract with the United States.<sup>12</sup> Lucent sought both access to the inventors’ undisclosed engineering drawings as well as a license to use the drawings to produce a prototype for research and development purposes.<sup>13</sup> According to the complaint, the inventors agreed to provide both an R&D license and the drawings; in return, Lucent agreed to keep the drawings secret, to negotiate another license agreement if they were interested in using the device in their network, and to provide the inventors with computer-assisted drawings of the technology.<sup>14</sup>

Shortly thereafter, Lucent rejected the inventors’ request for CAD drawings of the coupler on the grounds that the inventors lacked the necessary security clearance required for access to the classified Navy project.<sup>15</sup> Nevertheless, the inventors were presumably excited to learn that Lucent’s suitability testing indicated that the coupler was the best device for the

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<sup>9</sup> See U.S. Patent No. 5,286,129 (filed Aug. 7, 1991).

<sup>10</sup> See *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 ERW, 2007 WL 4593500, \*2-3 (E.D. Mo. Dec. 28, 2007). The inventors originally garnered the interest of Plast-O-Matic, which was a subcontractor of Lucent on the fiber optic Naval project. *Id.* The inventors worked with Plast-O-Matic throughout 1994. *Id.* In early 1995, the inventors developed a direct connection to Lucent Technologies. Lucent Technologies, Inc. and AT&T Co. were both named as defendants in the lawsuit, although apparently all dealings occurred directly with Lucent. *Id.* Because there is no distinction in the Privilege analysis between the two defendants, the defendants are collectively referred to as “Lucent.”

<sup>11</sup> *Id.* at \*4.

<sup>12</sup> *Id.* (“Plaintiff also became aware that the project was under a United States government contract during the ‘first third’ or ‘first quarter’ of the relationship, and that this project was classified.”).

<sup>13</sup> *Id.*; Second Amended Complaint at ¶¶ 10–11, *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 ERW (E.D. Mo. Aug. 31, 2006), 2006 WL 2699395.

<sup>14</sup> Second Amended Complaint, *supra* note 13, at ¶¶ 12, 14–16. The district court held that there was no agreement to maintain the confidentiality of the technology. *Crater*, 2007 WL 4593500, at \*3.

<sup>15</sup> *Crater*, 2007 WL 4593500, at \*5.

project.<sup>16</sup> They were less excited, however, when Lucent offered only \$100,000 to license the technology.<sup>17</sup> In May 1998, the inventors' corporation (Crater) filed a lawsuit alleging patent infringement, misappropriation of trade secrets, and breach of contract.<sup>18</sup>

In order to establish their patent infringement claim, Crater had to demonstrate that Lucent had fulfilled its government contract by manufacturing and using a device that fell within the scope of the patent.<sup>19</sup> By contrast, the trade secrets misappropriation claim required a demonstration of a disclosure of the inventors' confidential information to the government, even in the form of a non-infringing coupling.<sup>20</sup> To succeed on these claims, however, Crater would have had to either demonstrate that Lucent made some use of the inventors' patented or

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<sup>16</sup> Poulsen, *supra* note 1.

<sup>17</sup> *Id.* One of the inventors wanted to demand \$500,000 instead; the other, however, wanted to take the offered amount. *Id.*

<sup>18</sup> *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1261-62 (Fed. Cir. 2005), *cert. denied*, 547 U.S. 1218 (2006). It should be noted that two of the inventors bought out the patent rights of the third inventor, and it is those two remaining patent holders who are the owners of Crater Corporation. Poulsen, *supra* note 1. The article uses "Crater Corporation" and "Crater" when referring to the party plaintiff, and "the inventors" when referring to their earlier inventive efforts. *Id.*

<sup>19</sup> *See* 35 U.S.C. § 271 (2006); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730-32 (2002).

<sup>20</sup> Missouri law defines misappropriation of a trade secret, in part, as:

Disclosure or use of a trade secret of a person without express or implied consent by another person who:

- (a) Used improper means to acquire knowledge of the trade secret; or
- (b) Before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake; or
- (c) At the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was:
  - i. Derived from or through a person who had utilized improper means to acquire it;
  - ii. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
  - iii. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.

MO. REV. STAT. § 417.453(2) (2008).

confidential information (the former for patent infringement, and the latter for trade secret misappropriation) to develop or produce the coupler, or demonstrate that Lucent shared this information with the government. Accordingly, the inventors sought discovery from Lucent and the government regarding their agreement and the nature of Lucent's coupler.<sup>21</sup>

Crater did not get far into litigation, however, when in August 1998, Lucent moved for dismissal of the patent infringement claim on the grounds that 28 U.S.C. § 1498(a) immunizes government contractors from patent infringement.<sup>22</sup> Section 1498 does not eliminate an inventor's ability to seek compensation for use of their patented inventions, however; instead it shifts liability directly to the government and expressly authorizes suits against the government for any such infringement.<sup>23</sup>

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<sup>21</sup> Crater Corp. v. Lucent Techs., Inc., No. 4:98CV00913 ERW, 2004 WL 3609347, at \*2 (E.D. Mo. Feb. 19, 2004) (noting that the court entered a protective order sought by the government, "which stated that Crater could not 'conduct any discovery or serve any subpoena for information relating to the manufacture or use of plaintiff's coupling device, or any coupling device, by or on behalf of the United States.'").

<sup>22</sup> Crater Corp. v. Lucent Techs., Inc., No. 4:98CV00913 ERW, 1999 WL 33973795 (E.D. Mo. Aug. 25, 1999). On appeal, the court stated that

[i]n addition to giving the United States Court of Federal Claims exclusive jurisdiction over patent infringement suits against the government, § 1498(a) also provides 'an affirmative defense for applicable government contractors.' If a patented invention is used or manufactured for the government by a private party, that private party cannot be held liable for patent infringement.

Crater Corp. v. Lucent Techs., Inc., 255 F.3d 1361, 1364 (Fed. Cir. 2001) (citations omitted).

<sup>23</sup> Section 1498 provides:

Whenever an invention described in and covered by a patent . . . is used or manufactured by or for the United States without license of the owner thereof . . . the owner's remedy shall be by action against the United States in the United States Court of Federal Claims for the recovery of his reasonable and entire compensation for such use and manufacture.

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For the purposes of this section, the use or manufacture of an invention described in and covered by a patent . . . by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

28 U.S.C. § 1498(a) (2006).

In September 2001, the Federal Circuit upheld the district court's dismissal of the patent claim.<sup>24</sup> As of 2007, Crater's 1498(a) administrative claim before the Department of Defense was still pending.<sup>25</sup> Since 1498 only applies to patent claims, Crater could continue suing Lucent under the trade secret and contract claims. Once the circuit court decided the 1498 issue and the district court litigation resumed on the remaining claims, Crater tried to obtain previously-requested information regarding Lucent's coupler.<sup>26</sup> However, Crater found itself stymied on these claims as well. The government acknowledged that Lucent made 36 Crater-based prototypes for research and development, but claimed that these prototypes were rejected for use in the project.<sup>27</sup> Additionally, the government (having intervened in March 1999) asserted that neither it nor Lucent would produce information showing the selected design, because such information fell within the scope of the Privilege.<sup>28</sup>

The Privilege emanates from common law, most directly from a series of nineteenth century evidentiary rulings involving government concerns that "were woven together under the umbrella concept of a multifaceted 'public interest' privilege, some aspects of which were

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<sup>24</sup> *Crater*, 255 F.3d at 1363.

<sup>25</sup> *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 ERW, 2007 WL 4593500, at \*5 (E.D. Mo. Dec. 28, 2007); *see* 48 C.F.R. § 227.7004 (2008) (explaining the process of submitting an administrative claim for patent infringement with the Department of Defense).

<sup>26</sup> *Crater*, 2004 WL 3609347, at \*1. The district court further concluded that without federal question jurisdiction premised on the infringement claim, it lacked supplemental jurisdiction to hear Crater's state law claims for misappropriation of trade secrets and breach of contract, and therefore granted Lucent's motion to dismiss those claims as well. *Crater*, 1999 WL 33973795, at \*1. On Crater's first appeal, the Federal Circuit affirmed the dismissal of the patent infringement claim, but reversed the dismissal of the state law claims. The Federal Circuit concluded that, under section 1367(c), the district court retained supplemental jurisdiction over the state law claims, and possessed the discretion as to whether or not to hear them. *Crater*, 255 F.3d at 1370-71. Thus, the Federal Circuit remanded to the district court for proceedings to determine whether to exercise such jurisdiction. *Id.* at 1371.

<sup>27</sup> *Crater*, 2007 WL 4593500, at \*5. Plaintiff contends that the Government had previously admitted making fifty-three prototypes. *Id.*

<sup>28</sup> *Id.* at \*1-2. Lucent did not take a position on whether the government properly invoked the Privilege. *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1266 n.2 (Fed. Cir. 2005). Lucent argued that if the Privilege was upheld and the evidence regarding the contracted-for device was unavailable, the inventors' claims had to be dismissed. *Id.*

referred to under the subheading of ‘state secrets.’”<sup>29</sup> The justification for the Privilege rests on the notion that the government possesses the right to shield information from the public when disclosure of such information would endanger national security (by permitting foreign entities to learn about the country’s military operations or diplomatic endeavors).<sup>30</sup> As one court described it, the Privilege is “the assertion of a paramount government right, the inherent right of self-preservation for purposes of national defense.”<sup>31</sup> Under early United States common law, the Privilege was a generalized “public interest privilege” that covered communications between private informers and government officials (the informer’s privilege) and intra-government communications (the deliberative process privilege), as well as communications related to national security and foreign relations (the military and state secret privilege).<sup>32</sup> As now applied, the Privilege is used to protect the country’s defense functions, intelligence-gathering methods and abilities, and foreign diplomatic relations.<sup>33</sup>

While the Supreme Court formally recognized the Privilege in 1953,<sup>34</sup> the progenitor to the Privilege developed in the lead-up to and midst of the two world wars. In this period, weapon

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<sup>29</sup> Chesney, *supra* note 3, at 1270-71.

<sup>30</sup> See *Crater*, 255 F.3d at 1370 (“The state secrets privilege allows the United States to ‘block discovery in a lawsuit to any information that, if disclosed, would adversely affect national security.’”) (citing *Ellsberg v. Mitchell*, 709 F.2d 51, 56 (D.C. Cir. 1983)).

<sup>31</sup> *Pollen v. Ford Instrument Co.*, 26 F. Supp. 583, 584 (E.D.N.Y. 1939).

<sup>32</sup> See Chesney, *supra* note 3, at 1271-80 (describing 19<sup>th</sup> century cases involved in the development of the Privilege, as well as early treatises discussing those cases). Professor Chesney has suggested that it may be possible to trace back the courts’ generalized belief of the existence of the Privilege to the same origin—the English common law—as most privileges recognized by the courts, such as spousal privilege, attorney-client privilege, and the privilege against self-incrimination. *Id.* at 1273-74. As he notes, an 1836 treatise mentions two English cases that offer examples of an embryonic “matters of state” privilege. *Id.* at 1275-76.

<sup>33</sup> *Crater*, 255 F.3d at 1370 (citing *Ellsberg v. Mitchell*, 709 F.2d 51, 56 (D.C. Cir. 1983)).

<sup>34</sup> *United States v. Reynolds*, 345 U.S. 1, 12 (1953). In *Reynolds*, three employees of an Air Force contractor were killed when a B-29 Superfortress crashed. The employees’ widows sued the government under the Federal Tort Claims Act. *Id.* at 3. During discovery, they sought production of accident reports concerning the crash, but were told by the Air Force that the release of such details would threaten national security. *Id.* at 3-4. Because of the failure of the government to produce the documents, a directed verdict in favor of the plaintiffs was granted by the trial court. *Id.* at 4. The United States

innovation became a more important facet of military power than ever before. Although technology has always acted as a “force multiplier,” the ability of the military industrial base to provide consistent innovation and progress in military technology became crucial to warfare in the twentieth century.<sup>35</sup>

In World War II, the ability of combatants to produce technologically advanced equipment and use it on the battlefield often meant the difference between victory and defeat.<sup>36</sup> It is no surprise, then, that the first 20<sup>th</sup> century case in which the Privilege was invoked (as well as two cases immediately prior to World War II) involved patent litigation by inventors whose devices had been allegedly used without authorization by the military or its contractors (armor-piercing projectiles in the first, apparatuses relating to gun-sighting in the later two).<sup>37</sup> While two of these cases involved claims brought against the government under 1498 (or its predecessor), one case was a private patent suit in which the government intervened in order to invoke the Privilege, much like *Crater*.<sup>38</sup>

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Supreme Court reversed the decision (which had been affirmed by the Third Circuit), and remanded the case to the trial court. *Id.* at 12.

<sup>35</sup> See RUPERT SMITH, *THE UTILITY OF FORCE: THE ART OF WAR IN THE MODERN WORLD* 132 (Knopf 2007) (elaborating the importance of technology to the mechanization of war on land, air, and sea).

<sup>36</sup> See Mark Harrison, *The Economics of World War II: An Overview*, in *THE ECONOMICS OF WORLD WAR II: SIX GREAT POWERS IN INTERNATIONAL COMPARISON* 1, 26 (Mark Harrison ed., Cambridge Univ. Press 1998) (detailing and comparing the economic, industrial, and technological bases of the major combatants of World War II).

<sup>37</sup> See *Pollen v. United States*, 85 Ct. Cl. 673 (1937); *Pollen v. Ford Instrument Co.*, 26 F. Supp. 583 (E.D.N.Y. 1939); *Firth Sterling Steel Co. v. Bethlehem Steel Co.*, 199 F. 353 (E.D. Pa. 1912).

<sup>38</sup> Compare *Pollen*, 85 Ct. Cl. at 674 (action against the U.S. government) with *Pollen*, 26 F. Supp. at 584-85 (action against government contractor) and *Firth*, 199 F. at 353-54 (action against government contractor). Indeed, in some ways *Firth* seems similar to *Crater*. In this case, a company obtained a competitor’s confidential technology directly from the Government. *Firth*, 199 F. at 353. *Firth Sterling* submitted a government bid for the manufacture of armor-piercing projectiles, which included non-public blueprints for its version of the product. *Id.* at 354. Nonetheless, the government then turned over *Firth*’s blueprints to its competitor, defendant Bethlehem Steel, which used them to make their own version of the projectiles. See *id.* at 353. After *Firth Sterling* learned of this disclosure, it sued its competitor. See *id.* When *Firth Sterling* attempted to obtain discovery from both Bethlehem and the government, the Navy argued that “the researches and developments made by the Bureau of Ordnance and communicated to the Bethlehem Steel Company, for the purpose of fulfilling its contracts, embody secrets of military value to

## B. The Application of the Privilege in Crater

The government's strategy in district court was straightforward: assert the Privilege for almost every document that the plaintiff sought to discover. The government asserted the Privilege for over 26,000 documents, including all information involving whether or not any version or derivative of the Crater coupler was used.<sup>39</sup> To properly assert the Privilege, the head of the governmental department with authority over such information must formally invoke it and provide a declaration explaining the reason that national security would be at risk if the designated information were disclosed.<sup>40</sup> The government purportedly satisfied this requirement by submitting two declarations (one classified, one public) through the Secretary of the Navy.<sup>41</sup> The Navy's public declaration merely stated that the documents had been reviewed, and that the government had concluded that discovery proceedings could potentially provide classified information to U.S. adversaries. Furthermore, the public declaration stated that such disclosure

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the government that could not be disclosed without detriment to the public interests." *Id.* at 354. Upholding the government's assertion of the Privilege, the court not only denied Firth's motion to compel the testimony, but impounded Firth's exhibits. *Id.* at 356.

<sup>39</sup> *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1263-64 (Fed. Cir. 2005) (noting that the Government indicated that the concern was based on the possible disclosure of "information relating to the manufacture or use of [Crater's] coupling device, or any coupling device, by or on behalf of the United States").

<sup>40</sup> *Id.* at 1265-66. In *Reynolds*, the Supreme Court had stated that invocation should only be made "after actual personal consideration by that officer." *United States v. Reynolds*, 345 U.S. 1, 8 (1953). But the *Crater* court concluded that this "personal consideration" did not demand that the department head personally review all of the information and documents sought. *Crater*, 423 F.3d at 1266. Although the *Crater* court did not elaborate, presumably the requisite consideration can be satisfied by the department head's personal consideration after being briefed by subordinates who reviewed the information and the security concerns. *See Clift v. United States*, 597 F.2d 826, 828-29 (2d Cir. 1979) (finding that the Privilege was sufficiently invoked by a mere Admiral's review of the documents, the Secretary of Defense Richard Chaney's declaration of review of the Admiral's affidavit and a sample of documents). The court noted, however, that "the Government would be wiser not to put courts to this test in the future." *Id.*

<sup>41</sup> *Crater*, 423 F.3d at 1263-65. There were private and public versions of each of the declarations: one from Richard J. Danzig, then-Secretary of the Navy, and one from Acting Secretary of the Navy Hansford T. Johnson. *Id.*

could enable these adversaries to defeat U.S. military operations and gravely harm national security.<sup>42</sup>

The district court first attempted to address the Navy's concern by conducting an in camera inspection of the designated documents.<sup>43</sup> Given the vast number of documents, it is difficult to imagine that the court carefully considered each one's significance. Nonetheless, even a cursory review revealed that certain documents, such as publicly available court records, were not protected by the Privilege; as a result, the district court ordered a disclosure of such documents.<sup>44</sup> The government resisted disclosing even these documents, which prompted the court to order a "show cause" hearing regarding the use of the Privilege.<sup>45</sup> After the hearing, the court announced that even if the disputed documents were disclosed, the Privilege had indeed been properly invoked regarding specific documents that were crucial to proving the plaintiff's case.<sup>46</sup> As a result, not only did the district court prohibit the inventors from conducting any further discovery related to the manufacture or use of their invention, the court also concluded that:

While Crater need not prove the government's intended use of the device, there is no way that Crater can prove misappropriation without showing that the defendants somehow incorporated Crater's design information into the classified government device. Because the protective order and the government's proper assertion of the state secrets privilege prevents Crater from discovering any evidence relating to this claim, Crater is unable to make out a prima facie case of misappropriation of trade secrets. Similarly, all of Crater's breach of contract

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<sup>42</sup> *Id.* at 1263 (offering assertions by the government that compelling the government to turn over those documents "would permit potential adversaries to adopt specific measures to defeat or otherwise impair the effectiveness of those operations and programs," and "reasonably could be expected to cause extremely grave damage to the [country's] vital national security interests").

<sup>43</sup> *Id.* at 1264.

<sup>44</sup> *Id.* at 1265.

<sup>45</sup> *Id.*

<sup>46</sup> *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 ERW, 2004 WL 3609347, at \*2 (E.D. Mo. Feb. 19, 2004).

claims except one require Crater to prove what the defendants did for the government.<sup>47</sup>

Lucent took no formal position on the propriety of the Privilege, but argued that its application would make it impossible to produce adequate evidence for a defense.<sup>48</sup> The district court agreed, declaring that even if the plaintiffs could somehow present a prima facie case, the government's invocation of the Privilege unfairly prevented Lucent from defending against Crater's claims.<sup>49</sup> As a result, the court concluded that the most just solution was to dismiss Crater's remaining misappropriation and contract claims.<sup>50</sup>

Considering the decision on appeal, the Federal Circuit began its analysis by acknowledging that the Supreme Court has previously indicated that the Privilege is "not to be lightly invoked."<sup>51</sup> Nonetheless, without even reviewing the documents themselves (relying instead on the lower court's decision, the government's declarations, and the parties' briefs), the Federal Circuit upheld the government's invocation of the Privilege for all of the documents.<sup>52</sup> Even more alarming was its intimation that, although such a remedy was "harsh," the district court was likely correct in dismissing the claims (because the claims could not prevail without

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<sup>47</sup> *Id.* at \*3.

<sup>48</sup> *Crater*, 423 F.3d at 166 n.2.

<sup>49</sup> *Crater*, 2004 WL 3609347, at \*4.

<sup>50</sup> *Id.*

<sup>51</sup> *Crater*, 423 F.3d at 1265 (citing *United States v. Reynolds*, 345 U.S. 1, 7 (1953)).

<sup>52</sup> *Id.* at 1269–70 ("None of us on this panel has inspected any of the information for which the claim is made."). *Crater* argued that the government's assertion of the Privilege was improper because the Secretary of the Navy and Acting Secretary of the Navy did not personally review the materials sought to be protected. *Id.* at 1265-66. The Federal Circuit rejected this argument, finding it sufficient that the Secretaries were informed of the nature and scope of the documents and determined, based on their personal knowledge, that disclosure would jeopardize a legitimate state secret and threaten national security. *Id.* at 1266; *cf.* *Kinoy v. Mitchell*, 67 F.R.D. 1, 9-10 (S.D.N.Y. 1975) (refusing to accept Attorney General's privilege claim in the absence of "an explicit representation" that he personally reviewed the material).

the privileged information).<sup>53</sup> Nonetheless, the case was remanded for further consideration.<sup>54</sup> On remand, the district court found insufficient evidence to support Crater's claim that Lucent used the invention outside of the research and development prototypes and granted summary judgment to Lucent.<sup>55</sup>

While formally concurring in part and dissenting in part, Federal Circuit Court Judge Newman found several significant problems with the majority opinion. She began by disapproving of the decision to uphold the Privilege without reviewing the disputed information in light of the Supreme Court's requirement that reviewing courts must determine for themselves whether the Privilege was appropriately claimed.<sup>56</sup> The failure to do so was particularly troubling to Judge Newman because she appeared to be skeptical that the government had used the

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<sup>53</sup> *Crater*, 423 F.3d at 1267 (“Although harsh, the presence of a properly invoked state secrets privilege requires dismissal of [a] claim that cannot prevail without the privileged information.”) (citing *McDonnell Douglas Corp. v. United States*, 323 F.3d 1006, 1021 (Fed. Cir. 2003)).

<sup>54</sup> Although the court recognized that “the record as it pertains to Crater’s state law claims is not adequately developed,” it then reviewed the claims (as indicated in the pleadings and briefs), and concluded that “as far as we can tell, it has not been established precisely what, if any, trade secrets exist in connection with the Crater coupler,” or “whether, under Missouri law, there was a contract between Crater and Lucent and, if there was a contract, what its terms were.” *Id.* at 1267-68.

<sup>55</sup> *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 ERW, 2007 WL 4593500, at \*13 (E.D. Mo. Dec. 28, 2007). In opposition to Lucent’s motion for summary judgment after this remand, Crater apparently changed its theory of recovery from a trade secret misappropriation claim to a “Submission of Ideas” claim available under New Jersey common law. *Id.* at \*12. That claim required proving that: “(1) the idea was novel; (2) it was made in confidence, and (3) it was adopted and made use of” by the defendant. *Id.* Whereas establishment of a “trade secret” requires proof of other commercial use of the information by the owners prior to its alleged misappropriation, misuse of an “idea” does not. *Id.* On remand, it was undisputed that the Crater inventors had not sold or commercially used the coupler technology other than in regard to its dealings with Lucent. *Id.* at \*3. “When trade secret claims do not meet the Restatement’s ‘use in business’ requirement, they are treated as submission-of-idea cases.” *Id.* at \*12 (citing 49 NEW JERSEY PRACTICE, BUSINESS LAW DESKBOOK § 15:4 (Brent A. Olson et al. eds, 2007)). Nonetheless, when the Federal Circuit addressed the Privilege issue in 2006, it treated the inventors’ information as potential trade secrets. Accordingly, this article analyzes the merits and problems of the circuit court’s decision assuming that the inventors’ information would indeed constitute trade secrets. *See infra* note 68.

<sup>56</sup> *Reynolds*, 345 U.S. at 8; *Crater*, 423 F.3d at 1270 (“None of us on this panel has inspected any of the information for which the claim is made.”); *see also* *Molerio v. F.B.I.*, 749 F.2d 815, 822 (D.C. Cir. 1984) (“To some degree at least, the validity of the government’s assertion must be judicially assessed.”).

Privilege appropriately, a skepticism fomented by several factors.<sup>57</sup> First, Judge Newman proclaimed that the government's declarations failed to sufficiently describe the nature of the documents and to identify the individual who reviewed these documents.<sup>58</sup> As a result, the court did not know whether the documents truly contained sensitive data. Further, the court was unable to ensure that the reviewer understood both the scope of the Privilege and the government's obligation to redact and separate sensitive information, producing the remaining non-sensitive information where possible.<sup>59</sup>

Second, Judge Newman observed that it was apparent that little or no effort was made to ensure that the Privilege was being used only on material that, if disclosed, would be a threat to national security. She noted that among the 26,000 purportedly "privileged" documents were items already in the public record.<sup>60</sup> This violates the tenet that the Privilege can only be used to protect information that threatens national security, and whenever possible, non-sensitive information must be separated out for release.<sup>61</sup> Moreover, the Supreme Court in *Reynolds* stated that in instances where evidence is necessary, the Privilege should be scrutinized because executive officers cannot control judicial evidence.<sup>62</sup> Though the *Crater* majority gave lip

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<sup>57</sup> *Crater*, 423 F.3d at 1270.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* (noting the requirement that the official invoking the Privilege "must set forth, with enough particularity for the court to make an informed decision, the nature of the material withheld and of the threat to the national security should it be revealed") (citing *Kinoy v. Mitchell*, 67 F.R.D. 1, 8 (S.D.N.Y.1975)).

<sup>60</sup> *Id.*

<sup>61</sup> *Id.* (citing *Ellsberg v. Mitchell*, 709 F.2d 51, 57 (D.C. Cir. 1983)).

<sup>62</sup> *United States v. Reynolds*, 345 U.S. 1, 9-10 (1953) ("Where there is a strong showing of necessity, the claim of privilege should not be lightly accepted."); see *Molerio v. F.B.I.*, 749 F.2d 815, 822 (D.C. Cir. 1984) ("To some degree at least, the validity of the government's assertion must be judicially assessed."); *Clift v. United States*, 808 F. Supp. 101, 105 (D. Conn. 1991) (citing *Reynolds*, 345 U.S. at 9-10 and *Molerio*, 749 F.2d at 822). As early as 1953, Attorney General Herbert Brownell told President Eisenhower that classification procedures were "so broadly drawn and loosely administered as to make it possible for government officials to cover up their own mistakes and even their wrongdoing under the guise of protecting national security." Garry Wills, *Why the Government Can Legally Lie*, THE NEW

service to this idea, it did not take its responsibility to impartial review seriously.<sup>63</sup> The privileged information was plainly necessary to the plaintiff in light of the district court's conclusion that the plaintiff's claims were unsustainable without it. In sum, the Crater majority failed to properly review the relevant documents to determine the applicability of the Privilege.

As questionable as the specific applicability of the Privilege to the *Crater* documents might have been, this issue is outside of the scope of this Article. Of far greater concern are the larger constitutional and policy dangers, one of which was touched upon by Judge Newman and created by decisions such as *Crater*.

### III. The Legal and Policy Implications of Using the Privilege to Suppress Inventors' Claims

The *Crater* majority's knee-jerk acquiescence to the government's invocation of the Privilege might have been expected. The military has invoked the Privilege in a variety of cases, such as soldiers' wrongful death claims.<sup>64</sup> Because a mere showing of a "reasonable danger" of

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YORK REVIEW OF BOOKS, Feb. 12, 2009, <http://www.nybooks.com/articles/22285> (citing Brownell's June 15, 1953 letter to Eisenhower in KENNETH R. MEYER, WITH THE STROKE OF A PEN: EXECUTIVE ORDERS AND PRESIDENTIAL POWER 145 (Princeton University Press 2002)). And Erwin Griswold, President Nixon's former solicitor general, stated: "It quickly becomes apparent to any person who has considerable experience with classified material that there is massive overclassification, and that the principal concern of the classifiers is not with national security, but rather with government embarrassment of one sort or another." *Id.* (citing Erwin N. Griswold, Op-Ed., *Secrets Not Worth Keeping*, WASH. POST, Febr. 15, 1989, at A25).

<sup>63</sup> It is unclear whether the Federal Circuit should have been applying a *de novo* or abuse of discretion standard. On other privilege issues, the Federal Circuit has deferred to the law of the regional circuit. *See In re Pioneer Hi-Bred Int'l, Inc.*, 238 F.3d 1370, 1374 (Fed. Cir. 2001). But the Eighth Circuit has not clearly addressed the issue, and, regarding other privileges, "there is a conflict among courts of appeals on whether review of the district court's decision is *de novo* or for abuse of discretion." *Id.* (*comparing Chaudhry v. Gallerizzo*, 174 F.3d 394, 402 (4th Cir. 1999) ("We review the district court's decision that certain documents are subject to privilege *de novo* . . ."), with *In re Grand Jury Proceedings*, 219 F.3d 175, 182 (2d Cir. 2000) ("We review a district court's finding of waiver of the attorney-client and work-product privileges for abuse of discretion.")).

<sup>64</sup> *See, e.g.,* *Schwartz v. Raytheon Co.*, 150 F. App'x 627 (9th Cir. 2005) (referencing a *qui tam* whistleblower action filed under the False Claims Act, claiming that military contractor failed to satisfy requirements of a defense contract, in dismissing suit as a result of privilege); *Zuckerbraun v. Gen. Dynamics Corp.*, 935 F.2d 544 (2d Cir. 1991) (dismissing an action brought against missile defense systems' manufacturers, designers, and testers for wrongful death of sailor who was killed when his ship

security impairment will be successful, courts usually uphold the Privilege.<sup>65</sup> Moreover, because courts largely defer to the executive branch with regards to the preferred approach to safeguard security, they almost always suppress the designated information.<sup>66</sup> This is true in nearly all cases regarding unauthorized government use of intellectual property.<sup>67</sup>

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was fired on by foreign aircraft after the invocation of the Privilege); *see also* *Weston v. Lockheed Missiles & Space Co.*, 881 F.2d 814, 815 (9th Cir. 1989) (upholding the use of the Privilege in a suit by a homosexual employee of a government contractor against the contractor and the Department of Defense where the plaintiff claimed the government precluded the security clearance of the applicant revealing “evidence of homosexuality”); *Darby v. U.S. Dep’t of Defense*, 74 F. App’x. 813 (9th Cir. 2003) (consisting of a suit regarding a denial of access to a military base where the government asserted the Privilege).

<sup>65</sup> *Ellsberg*, 709 F.2d at 58 (citing *Reynolds*, 345 U.S. at 10).

<sup>66</sup> *See, e.g., Schwartz*, 150 F. App’x. at 628; *Weston*, 881 F.2d at 815; *Hudson River Sloop Clearwater, Inc. v. Dep’t of the Navy*, No. CV-86-3292, 1989 WL 50794, at \*4-5 (E.D.N.Y. May 4, 1989) (consisting of a challenge under the National Environmental Protection Act (NEPA) to the United States Navy’s decision to construct a homeport in New York harbor which would allegedly include ships with nuclear weapons). The court upheld the Navy’s invocation of the Privilege, suppressed the documents, and dismissed the suit. *Id.*

<sup>67</sup> *See, e.g., In re Under Seal*, 945 F.2d 1285, 1289 (4th Cir. 1991) (upholding a protective discovery order preventing the plaintiff from developing a factual basis for the claim of tortious interference with business, after a former government contractor sued several government agencies and a competing contractor, alleging that the defendant contractor and some government employees conspired to prevent the plaintiff’s contract from being renewed); *Clift v. United States*, 597 F.2d 826, 829 (2d Cir. 1979); *N.S.N. Int’l Indus. v. E.I. Dupont de Nemours & Co.*, 140 F.R.D. 275, 281 (S.D.N.Y. 1991) (consisting of a suit for a breach of contract regarding DuPont’s use of NSN’s technology for military armored personnel carriers in which the court upheld the military’s claim of the Privilege solely based on the Secretary of Defense’s declaration and suppressed sixty-six documents) The court claimed that the plaintiff was “in possession of substantial evidence from other sources supporting its claims.” *Id. Contra Halpern v. United States*, 258 F.2d 36, 44 (2d Cir. 1958) (holding that “the privilege . . . is inapplicable when disclosure to court personnel in an in camera proceeding will not make the information public or endanger the national security.”). For instance, in *Clift v. United States*, the plaintiff sought compensation for the government’s alleged use of his patented cryptography invention (as well as compensation for a claim under the Invention Secrecy Act, which is required when the government temporarily or permanently places a patent application under seal). 808 F. Supp. 101, 102-03 (D. Conn. 1991). The Second Circuit upheld the government’s assertion of the Privilege and suppressed the privileged information, which resulted in the eventual dismissal of the plaintiff’s claims. *Clift*, 597 F.2d at 829. In vacating the order of dismissal, the Second Circuit stated that Clift could perhaps proceed with his case without the requested documents or that, at some unforeseen point in time, the disclosure of the requested documents would no longer imperil the national security. *Id.* at 830. Moreover, the circuit court encouraged the government to “be as forthcoming as it can be without risk to the national interest.” *Id.* Yet the district court later dismissed the claims. *Clift*, 808 F. Supp. at 111; *see also Pollen v. United States*, 85 Ct. Cl. 673, 674 (1937) (upholding the Privilege to preclude the plaintiffs from subpoenaing the testimony of several witnesses).

Courts' reluctance to consider alternative approaches to the Privilege may reflect both a belief in the executive's national security expertise and an abdication of making decisions with potentially disastrous consequences. Whatever the reason, the outcome in *Crater* (the suppression of all of the designated documents and dismissal of the claims) creates two substantial problems.<sup>68</sup> First, the uncompensated use of an inventor's trade secrets is likely an unconstitutional violation of the Takings Clause. Second, the abuse of inventors' efforts will deter small businesses from engaging in the development of military applications, which derails a separate defense policy goal. Both problems demonstrate why national security concerns should not diminish the judiciary's role in checks and balances.

#### **A. The Likelihood of a Takings Clause Violation**

The government's use of trade secrets should immediately raise a red flag as possibly violating the Takings Clause, which prohibits the government from seizing of or trespassing on private property without compensation.<sup>69</sup> Indisputably, it is a longstanding Supreme Court

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<sup>68</sup> As explained above, on subsequent remand, *Crater* changed its theory of recovery to a "submission of idea" claim. *See supra* note 55. Whereas establishment of a "trade secret" requires proof of other commercial use of the information by the owners, an "idea" does not. *Crater Corp. v. Lucent Techs., Inc.*, No. 4:98CV00913 ERW, 2007 WL 4593500, at \*12 (E.D. Mo. Dec. 28, 2007) However, when the Federal Circuit addressed the Privilege, it treated the inventors' information as potential trade secrets. *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1262 (Fed. Cir. 2005). While the circuit court expressed skepticism of the inventors' ability to prove their claims, there is no indication that its privilege analysis was based on a clear rejection of the possibility that plaintiff might have possessed a trade secret. Moreover, given the likelihood that some unauthorized government use of information will likely run afoul of undisputed trade secrets, the Federal Circuit's application of the Privilege continues to be of concern. Accordingly, this Article analyzes the merit and problems of the circuit court's decision assuming that the inventors' information would indeed have constituted trade secrets.

<sup>69</sup> For almost 150 years, takings claims were limited to *physical* seizure or trespass. *See* Davida H. Isaacs, *Not All Property Is Created Equal: Why Modern Courts Resist Applying the Takings Clause to Patents, and Why They Are Right To Do So*, 15 GEO. MASON. L. REV. 1, 17 n.89, 29-30 (2007) (noting Justice Blackmun and constitutional scholars who have described the nineteenth century understanding of the Takings Clause). But in 1922 the doctrine of "regulatory takings" was established when the Supreme Court declared that the Takings Clause could encompass losses to property value resulting from other government action. *See* *Lingle v. Chevron U.S.A. Inc.*, 544 U.S. 528, 537 (2005) (referring to *Mahon*);

doctrine that many property interests do not qualify as protected “property” under the Takings Clause.<sup>70</sup> Here, however, the right is clear: in 1984, the Supreme Court held in *Ruckelshaus v. Monsanto* that trade secrets are indeed “property” for purposes of the Takings Clause, and that the government’s “trespasses” on an owner’s trade secrets can constitute a taking.<sup>71</sup> In *Crater*, if the complaint accurately describes Lucent’s agreement to limit its use of the plaintiff’s information to its testing of the coupler, and if that information did constitute protectable trade secrets, any further use of the information to produce a coupler on behalf of the government would likely establish a taking.<sup>72</sup> Yet, because the application of the Privilege effectively eliminates the trade secret owner’s claim, the inventors were prevented from receiving the compensation to which they were constitutionally entitled.

There is one possible argument against a trade secret owner’s takings claim. One of the Court’s few clear declarations regarding takings law has been that the government need not compensate even the complete destruction of property value if the justification comports with

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*see also* Pa. Coal Co. v. Mahon, 260 U.S. 393 (1922) (holding that a diminution in property value could be so great that it was “the functional equivalent of a ‘practical ouster of [the owner’s] possession”).

<sup>70</sup> *See* Isaacs, *supra* note 69, at 36 (“[b]eing property is a necessary requirement for Takings Clause protection, but it is not a sufficient one”). Isaacs identifies another scholar who has commented that, “constitutional scholars know that merely classifying a legal entitlement as property is insufficient by itself to justify providing its owner with the full panoply of constitutional remedies.” *Id.*

<sup>71</sup> *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1001 (1984).

<sup>72</sup> Under Missouri’s law, in order for the government to have committed a violation, the government also would need to have reason to know that the information was misappropriated. MO. REV. STAT. § 417.453(2) (2008). If the trade secrets might still have some commercial value, the government’s unauthorized use would not constitute a clearly compensable “total taking.” Unfortunately, the Court has been able to clearly articulate neither what qualifies as deprivation of “all economically beneficial us[e] of [the] property” sufficient for a total, per se taking, nor how to judge when partial economic diminution is sufficient to constitute a taking. *Lingle*, 544 U.S. at 538 (emphasis in original). “Indeed, shortly before retiring, Justice O’Connor pulled no punches: ‘Our regulatory takings jurisprudence cannot be characterized as unified.’” Isaacs, *supra* note 69, at 26 n.143 (citing *Lingle*, 544 U.S. at 539; *Palazzolo v. Rhode Island*, 533 U.S. 606, 631 (2001); *Tahoe-Sierra Pres. Council, Inc. v. Tahoe Reg’l Planning Agency*, 535 U.S. 302, 330-31 (2002)). In any case, the evidence indicates that the inventors had not been able to create other commercial interest in the coupler technology; thus, the trade secrets’ only apparent value involved their Navy application.

certain “background principles.”<sup>73</sup> The theory is that the property owner should recognize that such background principles have the potential to diminish the value of his property, and thus any determination of property value without consideration of those principles is not reasonable.<sup>74</sup> In the real property context, this term refers to traditional property and nuisance common law.<sup>75</sup> In *Ruckelshaus*, the Court concluded that these background principles include not only the general laws applicable to that particular type of property, but also to the regulatory environment of the trade secrets involved.<sup>76</sup> Assuming that a court would consider the protection of national security to be a background principle (after all, a fundamental purpose of the national government is to protect national security), the government’s use might not constitute a taking. However, the background principles rationale has been applied only in the context of regulatory takings (takings in which government legislation or regulation indirectly decreases the value of the property), and not in the context of direct takings (takings where the government actually uses the property).<sup>77</sup> It would significantly change takings doctrine if the government were permitted to seize property and assert national security as a basis for defending against a resulting takings claim.

This brings us to the practical “catch-22”: even if the trade secret owner were to pursue a viable takings claim, the government could presumably shut down any such claim by invoking

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<sup>73</sup> See *Lingle*, 544 U.S. at 538 (stating that in cases of such “categorical” takings, “the government must pay just compensation for such ‘total regulatory takings,’ except to the extent that ‘background principles of nuisance and property law’ independently restrict the owner’s intended use of the property”) (citing *Lucas v. S.C. Coastal Council*, 505 U.S. 1003, 1026-32 (1992)).

<sup>74</sup> *Lucas*, 505 U.S. at 1029.

<sup>75</sup> *Id.*

<sup>76</sup> *Ruckelshaus*, 467 U.S. at 1006 (noting the regulatory landscape that put Monsanto on notice that the EPA could reveal Monsanto’s formulae of products, as well as its health, safety, and efficacy data, to Federal agency and the public).

<sup>77</sup> See Nestor M. Davidson, *Standardization and Pluralism in Property Law*, 61 VAND. L. REV. 1597, 1659 (2008) (noting the courts’ use of the “background principles” in cabining regulatory takings); see also BRIAN W. BLAESSER & ALAN C. WEINSTEIN, *FEDERAL LAND USE LAW & LITIGATION* § 3:38 (updated 2009) (noting background principles as the exception to the “the categorical rule that total economic deprivation by regulation is a taking”).

the Privilege. This is consistent with the policy behind the Privilege; if national security would be threatened by the disclosure of information during a trade secret suit, the same threat would exist if disclosure occurred during a takings suit.<sup>78</sup>

One might suggest that this menace is merely phantom because inventors usually protect their inventions through patent rights instead of trade secret rights. Unfortunately, if inventors are unable to receive compensation through the government's administrative process (a meaningful concern for inventors), then they are left with the option of asserting a section 1498 compensation claim.<sup>79</sup> But the same problem arises: there is no reason that the government would invoke the Privilege in a private patent litigation and not invoke it in a section 1498 case involving the same technology (this might occur *if* the security risk was fabricated to protect the contractor from liability for political reasons).<sup>80</sup> Finally, the last recourse, a Takings Clause

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<sup>78</sup> That raises a further question: Could the invocation itself constitute a taking? Research has uncovered no other use of the privilege that resulted in a takings claim. It remains unresolved whether any judicial ruling can provide the basis for a takings claim. *See* J. Nicholas Bunch, Note, *Takings, Judicial Takings, and Patent Law*, 83 TEX. L. REV. 1747, 1752 n.29, 1760-63 (2005) (noting that while the concept of a judicial taking finds support in *Pruneyard Shopping Center v. Robins*, 447 U.S. 74, 82 (1980), and a concurrence by Justice Stewart in *Hughes v. Washington*, 389 U.S. 290, 296-97 (1967) and some language in *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1945), (which suggested that a court order decreeing the forfeiture of a patent as a remedy for antitrust violations would violate the Takings Clause), “the fact remains that the Supreme Court has yet to find a case in which a judicial taking has occurred”). Bunch argues that Federal Circuit decisions that dramatically depart from settled precedent should give rise to judicial takings claims. *Id.* at 1754-55. However, there is the reasonable concern that if any action by the judicial branch of government could instigate a constitutional taking, then every court loss would leave the government open to liability. But the military and state secrets privilege does appear to be an anomaly that could distinguish it from other judicial determinations—the courts have held that once where national security is at risk, acceptance of the Privilege is not discretionary. *See, e.g.*, *United States v. Reynolds*, 345 U.S. 1, 10 (1953); *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1266 (Fed. Cir. 2005). Thus, there is a strong argument that the destruction of the claim, though applied by the judiciary, is primarily an executive branch activity.

<sup>79</sup> As indicated by the apocryphal discussion offered by one patent attorney, the government is often not forthcoming with compensation to small businesses. *See* Posting of Michael L. Slonecker to Patently-O, Patently-O TidBits, [http://www.patentlyo.com/patent/2007/03/patentlyo\\_tidbi\\_2.html#comment-64529722](http://www.patentlyo.com/patent/2007/03/patentlyo_tidbi_2.html#comment-64529722) (Mar. 27, 2007 15:23:00 CST) (comment); discussion *infra* at Section III.B. Lucent almost certainly knew that it would be immunized from liability by section 1498 for any use that it made of the coupler under its government contract. Therefore, it had little motivation to avoid infringement.

<sup>80</sup> The Court of Federal Claims is a public forum just like any district or circuit court. *See* *Pollen v. United States*, 85 Ct. Cl. 673, 678 (1937) (noting that the jurisdiction of the court was predicated on the 1910

claim, would likely run into the same problem as described above: the government’s invocation of the Privilege would effectively preclude a patent holder from recovering any damages.<sup>81</sup>

In sum, by permitting the government’s application of the Privilege to eradicate the plaintiff’s claims, the court wrongly prevented the plaintiff from obtaining constitutionally mandated redress for the government’s use of the plaintiff’s trade secrets. Moreover, even a direct claim under the Takings Clause would presumably be thwarted by the Privilege. Thus, as applied in *Crater*, the Privilege would be more powerful than constitutional protections. And yet while one might be able to engage in a debate as to if (and when) national security should trump constitutional guarantees, the court failed even to consider this imbalance. If the *Crater* majority

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statutory predecessor to section 1498). In *Pollen*, the plaintiffs sought recompense for the Navy’s appropriation of two devices, the Federal Court of Claims upheld the privilege to preclude plaintiffs from subpoenaing the testimony of several witnesses—one a government witness and one a private witness who obtained information through a “confidential relationship” with the military. *Id.* at 680. At the time, the Judicial Code permitted “[the] head of any department [to] refuse and omit to comply with any [subpoena from the court] for information or papers, when, in his opinion, such compliance would be injurious to the public interest.” *Id.* at 677. The court rejected the argument that the Government waived its right to invoke a privilege which would effectively vitiate the claim, concluding that the section provides only an opportunity to sue the government, using the same evidentiary rules as in any other court. *Id.* The court also rejected the assertion that application of the Privilege would violate plaintiffs’ due process rights. *Id.* at 676. It wasn’t until far after *Pollen*—to be exact, in the 1999 Supreme Court’s *Florida Prepaid* decision—that it was even clear that a patent holder could, in fact, assert due process claims. [cite]

<sup>81</sup> In any case, getting past the Privilege hurdle would hardly be a guarantee of success of such a claim, because the Federal Circuit recently held that patents are not “property” for purposes of the Takings Clause. *Zoltek Corp. v. United States*, 442 F.3d 1345, 1353 (Fed. Cir. 2006) (per curiam), *cert. denied*, 127 S. Ct. 2936 (2007). That ruling was highly controversial, with a substantial number of practitioners and scholars strongly arguing that the earlier Supreme Court statements mandated a contrary result. There were some expectations that either the Federal Circuit would reverse this panel decision en banc, or that the Supreme Court would accept certiorari and reverse the lower court. Neither happened. Isaacs, *supra* note 69, at 13 (“[A] gambler might have reasonably wagered that the Federal Circuit would grant a rehearing en banc and overrule the panel.”). Compare Isaacs, *supra* note 69, at 43 (noting that if patents are considered federal benefits, they should not be protected by the Takings Clause), with Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689, 690 (2007) (arguing that patents are Takings Clause property); Shubha Ghosh, *Reconciling Property Rights and States’ Rights in the Information Age: Federalism, the “Sovereign’s Prerogative” and Takings after College Savings*, 31 U. TOL. L. REV. 17, 41 n.163 (1999) (stating patents are property for purposes of the Takings Clause).

recognized these conflicting obligations, they might have considered alternatives, such as those discussed in Part III, to the drastic result of denying inventors the ability to obtain relief.

### **B. Undermining Small Businesses' Incentive to Innovate Runs Counter to the Department of Defense's National Defense Strategy**

As explained above, the *Crater* court's application of the Privilege created a highly troubling constitutional problem. Given Judge Newman's previous vehement support for an inventor's right to Takings Clause protection, one might have expected that she would have directed her attention in *Crater* to the potential Takings Clause violation.<sup>82</sup> Yet Judge Newman focused on another effect of the Privilege: the danger of discouraging military innovation.

While expressly acknowledging the importance of protecting military and state secrets from the nation's enemies, Judge Newman declared that, "[a]t the same time, persons who serve the government must have a reasonable way of resolving disputes."<sup>83</sup> Providing the *Crater* inventors with legal recourse was not simply altruistic; rather, the fair resolution of disputes is necessary to ensure the government's continued access to the private sector's talents.<sup>84</sup> Judge Newman recognized that patent and trade secret protections exist to provide incentives to potential inventors. Without such protections, others would simply copy an invention and under-sell the original inventor. The right to temporarily charge monopoly prices encourages people to invest more money and effort into innovation. If government assertions of the Privilege are permitted to destroy such a monopoly's value, inventors will lose this incentive.

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<sup>82</sup> Upon the Federal Circuit's refusal to re-hear *Zoltek* en banc, it was Judge Newman who offered a strong dissent criticizing the Federal Circuit for failing to protect patentholders' property rights. *See Isaacs, supra* note 69, at 14 (noting that in her dissent to the denial to rehear *Zoltek* en banc, Judge Newman argued that recognition of the right to a Takings Clause remedy for trade secrets while rejecting a similar remedy for patents was in conflict with Supreme Court and lower court precedent that referred to patents as "property").

<sup>83</sup> *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1270 (Fed. Cir. 2005), *cert. denied*, 547 U.S. 1218 (2006).

<sup>84</sup> *Id.* at 1271.

Society may be willing to forego the creation of some relatively inconsequential inventions, but as Judge Newman indicated, it cannot afford to intentionally remove the intellectual property incentives for inventions with military application (such as the coupler).<sup>85</sup> Judge Newman is not the first jurist to recognize the danger created by precluding inventors from obtaining recompense for their inventions. Even while upholding the government's assertion of the Privilege in *Clift*, the Second Circuit Court of Appeals noted that the destruction of inventors' claims conflicts with the policy goal of encouraging inventors to pursue inventions with military potential.<sup>86</sup>

Most problematically, the disincentive caused by the dismissal of such claims falls disproportionately on smaller inventors. Permitting the Privilege to thwart the small inventors' incentive to innovate is particularly disturbing because the Department of Defense has recently recognized that such inventors are playing an increasingly important role in national security. Their significance is apparent in the "Revolution in Military Affairs" report, which represents the integration of advanced communications, computer, and information technology into military hardware and military institutions.<sup>87</sup> Much of this newer technology lies outside the expertise of traditional members of the defense-industrial complex.<sup>88</sup> Consequently, the Defense Department has suggested that it expects to rely more on non-traditional providers (which tend to include

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<sup>85</sup> *Id.*

<sup>86</sup> *Clift v. United States*, 597 F.2d 826, 829 (2d Cir. 1979) (citing *Halpern v. United States*, 258 F.2d 36, 39 (2d Cir. 1958)). In vacating the order of dismissal, the Second Circuit stated that *Clift* could perhaps proceed with his case without the requested documents or that, at some unforeseen point in time, the disclosure of the requested documents would no longer imperil the national security. *Id.* at 830. Moreover, the circuit court encouraged the government to "be as forthcoming as it can be without risk to the national interest." *Id.*

<sup>87</sup> JOINT CHIEFS OF STAFF, JOINT VISION 2010 11-16 (1996), *see also* WILLIAM S. COHEN, DEP'T OF DEF., ANNUAL REPORT TO THE PRESIDENT AND CONGRESS, ch. 10 (1999), *available at* <http://www.dod.mil/execsec/adr1999/chap10.html>.

<sup>88</sup> *See* PETER DOMBROWSKI & EUGENE GHOLZ, BUYING MILITARY TRANSFORMATION: TECHNOLOGICAL INNOVATION AND THE DEFENSE INDUSTRY xi (2006).

smaller inventive entities) than it has in the past.<sup>89</sup> This expectation of a shift in innovation's origin is the result of Pentagon studies conducted in the early 2000s. These studies emphasized the need to retain technological superiority in numerous areas in order to maintain "warfighting leadership."<sup>90</sup> They specifically called for the United States to expand access to innovative technologies available in the commercial realm, as this access would increasingly provide capability and cost advantages to the Defense Department.<sup>91</sup> Moreover, these studies concluded that gaining the benefit of private sector innovation depends on ensuring competition from firms that are not part of the traditional defense industrial base.<sup>92</sup> One study identified twenty-four small or non-traditional firms that could be expected to contribute to maintaining U.S. technological advantages.<sup>93</sup> As a result, the Department of Defense has made the transformation of the defense-industrial base by reaching out to smaller inventive entities a priority.<sup>94</sup>

There is no question that the government should be encouraging small businesses to invest more in innovation with potential military applications. However, as some scholars have noted, traditional members of the defense-industrial complex have substantial advantages over newcomers.<sup>95</sup> Larger, well-established companies are regularly involved in producing numerous goods and services used by the government.<sup>96</sup> These companies benefit from their familiarity with the remarkably time consuming, complex landscape of defense procurement. Indeed, former

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<sup>89</sup> OFF. OF THE DEPUTY UNDER SEC'Y OF DEF. (INDUS. POLICY), TRANSFORMING THE DEFENSE INDUSTRIAL BASE: A ROADMAP 8-13 (2003) [hereinafter ROADMAP].

<sup>90</sup> OFF. OF THE DEPUTY SEC'Y OF DEF. (INDUS. POLICY), DEFENSE INDUSTRIAL BASE CAPABILITIES STUDY: COMMAND AND CONTROL vi (2004).

<sup>91</sup> *Id.* at ix.

<sup>92</sup> *Id.* at 21; ROADMAP, *supra* note 89, at 35.

<sup>93</sup> ROADMAP, *supra* note 89, at v.

<sup>94</sup> Donald Rumsfeld & Rik Kirkland, *Don Rumsfeld Talks Guns and Butter; Setting Priorities When Stakes are Scary*, FORTUNE, Nov. 18, 2002, at 143. Rumsfeld noted, critically, that "[the] government tends not to have the kind of interaction with [all of] the creativity and innovation that exists in our society." *Id.*

<sup>95</sup> *See, e.g.*, DOMBROWSKI, *supra* note 88, at 24-25 (explaining defense firm hiring practices).

<sup>96</sup> *See, e.g., Id.* at 24 (explaining the large firm advantage).

Secretary of Defense Donald Rumsfeld noted that the delay caused by the process of defense procurement benefited larger companies because they have access to lawyers and lobbyists that smaller companies do not.<sup>97</sup> Moreover, government officials are generally interested in maintaining good relations with these regular suppliers. These companies further ensure favorable treatment by employing former Department of Defense and military personnel.<sup>98</sup> As a result, even when one of these large companies holds the intellectual property rights to an invention useful for a military system and is *not* the party contracted to produce that system, the military is likely to agree to license that invention rather than try to undercut one of its regular suppliers.

By contrast, smaller businesses do not have the political and economic influence to compel the government to license their intellectual property. Instead, they are left feeling impotent, and full of incumbent fear. Indeed, one commenter on the well-respected Patently-O blog described this impotence and incumbent fear through the following apocryphal dialogue:

Patentee sends letter to [the government] contractor saying “You are infringing my patent.” [sic]

Contractor sends letter to patentee saying “Pound sand, weasel. Go take it up with the [the government,] ‘cuz it ain’t my problem.”

Patentee send letter to [the government] saying “My patent is being infringed by the work being done under your contract with the contractor.”

[The government] replies “So sue me. I will consign your claim to a ‘black hole’ where it will languish for years as an administrative claim.”

Patentee send letter saying “Here is my claim.”

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<sup>97</sup> Rumsfeld & Kirkland, *supra* note 94 (“Delay helps the big companies, because they’ve got all the lawyers and all the lobbyists and all the people in Washington. Smaller companies don’t have time to do all of that.”).

<sup>98</sup> DOMBROWSKI, *supra* note 88, at 24.

[The government] replies “Got it. We will get back to you sometime in the next decade of [sic] so. Hopefully, by then you will be under Chapter 11.”<sup>99</sup>

To the extent that this view is prevalent among small businesses, they will anticipate the need to rely on legal recourse rather than clout. As a result, the incentive for smaller companies to develop technology beneficial to the Department of Defense will depend on robust intellectual property rights.

The government wants small inventors of newer technology to focus their innovative efforts with defense applications in mind, and holds out the promise of substantial government sales as motivation. Innovators attentive to that prospect could be dissuaded by the possibility that, if the fruit of their efforts are utilized without authorization, their avenues of recourse could be blocked through the government’s use of the Privilege. Therein lies the problem: the government is anticipating an increased reliance on small entity innovation to provide key components of many forthcoming national defense systems, yet its use of the Privilege to foster uncertainty in such entities is dangerously counterproductive.

In sum, as Judge Newman argued: “[f]air resolution of disputes is necessary to ensure the government’s continued access to the private sector’s talents.”<sup>100</sup> Unexpected termination of disputes through the Privilege undermines such a fair resolution. However, it is even more problematic than perhaps Judge Newman realized, because the government is expecting to rely more heavily on individual and smaller entities for much of its new defense technology. These groups lack the political clout and long-term institutional relationships to ensure that the military will properly license their technology. As a result, unless they can rely on having their intellectual property protected, small inventors may be disinclined to pursue inventions sought

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<sup>99</sup> Posting of Michael L. Slonecker to Patently-O, Patently-O TidBits, [http://www.patentlyo.com/patent/2007/03/patentlyo\\_tidbi\\_2.html#comment-64529722](http://www.patentlyo.com/patent/2007/03/patentlyo_tidbi_2.html#comment-64529722) (Mar. 27, 2007 15:23:00 CST) (comment).

<sup>100</sup> *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1270 (Fed. Cir. 2005).

after by the military, or to make their non-patented civilian inventions available to the military. Courts have failed to appreciate that by permitting the Privilege to effectively end these cases, they are discouraging innovation from precisely the groups that the government has indicated it is most interested in encouraging.

#### **IV. Resolving the Competing Needs to Ensure National Security and Encourage Inventors**

One might argue that the discouragement of inventors, especially smaller inventors, is an unfortunate but inevitable disadvantage of the use of the Privilege. But, obviously, it would be preferable to avoid that consequence to the greatest extent possible. Furthermore, the possibility of a Takings Clause violation cannot be easily shrugged off. While it is true that *Reynolds* suggests that the need to protect military secrets trumps the evidentiary needs of some plaintiffs, this exhortation does not require that the only remedy that a court may consider is a complete bar to disclosure of the information.<sup>101</sup> Thus, faced with possible constitutional violations and long-term security concerns, it is within the discretion of, and incumbent upon, Congress and the courts to fashion an alternative response to the invocation of the Privilege.<sup>102</sup> This approach, briefly mentioned by Judge Newman in her partial dissent, deserves further consideration.<sup>103</sup>

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<sup>101</sup> *United States v. Reynolds*, 345 U.S. 1, 11 n.26 (1953) (citing *Totten v. United States*, 92 U.S. 105 (1875)).

<sup>102</sup> *Crater*, 423 F.3d at 1271 (“The judicial obligation is to enable resolution, with safeguards appropriate to the subject matter.”); *Clift v. United States*, 808 F. Supp. 101, 107 (D. Conn. 1991) (“The effect that a successful invocation of the privilege has on a case varies; the court must invariably ‘consider whether and how the case may proceed in light of the privilege.’”) (citing *Fitzgerald v. Penthouse Int’l, Ltd.*, 776 F.2d 1236, 1243 (4th Cir. 1985)). However, the *Clift* court erroneously presumed that invocation of the privilege meant that, at a minimum, the court was forced to remove the sensitive information from the case completely. *See id.*

<sup>103</sup> *Crater*, 423 F.3d at 1271 (“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.”); *see also* *Pollen v. United States*, 85 Ct. Cl. 673, 680 (1937) (“[T]he plaintiffs’ motion for the court to instruct the defendant to proceed with the case *in camera* must be overruled.”).

Similar executive use (and arguably abuse) of the Privilege in cases regarding terrorism and national security investigations<sup>104</sup> has recently prompted a bipartisan group of Senators to propose a bill seeking to provide guidance to federal courts considering the assertion of the state secrets privilege.<sup>105</sup> This legislation, the State Secrets Protection Act, would provide increased judicial oversight of the government’s use of the Privilege.<sup>106</sup>

The majority report emphasizes that this bill “codifies the principle that state secrets assertions are justifiable” and that “[t]he court itself must determine whether the circumstances are appropriate for the claim of privilege.”<sup>107</sup> For example, the bill requires judges to review the allegedly privileged evidence before dismissing a case, instead of relying on the government’s assertions as to the nature of the proposed privileged information.<sup>108</sup>

The bill also formalizes procedures for invocation of the Privilege, including requiring government affidavits offering personal knowledge of the basis for the Privilege.<sup>109</sup> All

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<sup>104</sup> As the majority report makes clear, these cases primarily involve either government prosecution or private suits seeking the release of information about the government’s investigative activities. S. REP. NO. 110-442, at 3 (2008).

<sup>105</sup> Senate Judiciary Committee Chairman Patrick Leahy (D-Vt.), and Members Arlen Specter (R-Pa.), Russ Feingold (D-Wis.), Edward Kennedy (D-Ma.), Sheldon Whitehouse (D-R.I.) and Claire McCaskill (D-Mo.) introduced the bill on February 11, 2009. Press Release, U.S. Senator Patrick Leahy, Leahy, Specter, Feingold, Kennedy Introduce State Secrets Legislation (Feb. 11, 2009), *available at* <http://leahy.senate.gov/press/200902/021109b.html>. A version of the bill was previously introduced in January 2008, but died in that Congressional session after approval by the Judiciary Committee. State Secrets Protection Act, S. 2533, 110th Cong. (2008).

<sup>106</sup> State Secrets Protection Act, S. 417, 111th Cong. (2009).

<sup>107</sup> S. REP. NO. 110-442, at 24-25 (citing *United States v. Reynolds*, 345 U.S. 1, 8 (1953)). The majority emphasized that “[t]o the extent that *Reynolds*” —in which the court eventually rejected the opportunity to review the purported privileged — “has been read to bless the judicial practice of not ‘insisting upon an examination of the evidence, even by the judge alone, in chambers’ under certain conditions, the bill overrides the court’s discretion to adopt such a practice.” *Id.* at 24 (quoting *Reynolds*, 345 U.S. at 10).

<sup>108</sup> *Id.* at 20-22. A court may review “a sufficient sampling of the [allegedly privileged] evidence” if such a review will permit proper scrutiny of the documents at issue. *Id.* at 22.

<sup>109</sup> *Id.* at 12. The majority report notes that

The Government may assert the privilege to withhold information in discovery or to prevent the disclosure of information in litigation. The assertion is made through an affidavit signed by the head of the relevant agency and submitted to the court. An unclassified version of the affidavit must be made public.

purportedly privileged documents, along with an index, must be made available to the court.<sup>110</sup>

Moreover, by requiring that most hearings based on the assertion of the Privilege be conducted in camera,<sup>111</sup> and if necessary, by cleared special masters,<sup>112</sup> the bill undercuts the government argument that sharing the information needed to analyze the Privilege with the court would, in and of itself, impair national security because of the public's access to a district court's records or the judge's own lack of security clearance.<sup>113</sup>

Furthermore, the bill discourages attempts by the government to seek ex parte hearings by instructing the government to provide, where possible, opposing parties' attorneys with the needed national security clearances;<sup>114</sup> where such clearances are not possible (presumably because of the attorneys' background), the court is authorized to appoint a guardian ad litem to represent the private party's interests.<sup>115</sup> Finally, when material evidence is found to be privileged, the legislation compels a court to order the government to create, if possible, a non-privileged substitute for the evidence, such as an unclassified summary or a redacted version; government refusal to do so would oblige a court to decide the relevant issue of fact or law against the government.<sup>116</sup> Some combination of these procedural approaches has been used in prior individual cases. However, as demonstrated by the *Crater* courts' failure to review the

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*Id.*

<sup>110</sup> *Id.* at 22.

<sup>111</sup> *Id.* at 18. The proposed statute permits a public hearing if the only issues to be addressed are purely legal and do not necessitate the disclosure of sensitive factual information. *Id.*

<sup>112</sup> *Id.* at 19-20.

<sup>113</sup> *Cf. infra* notes 129-130..

<sup>114</sup> S. REP. NO. 110-442, at 19-20. *But see* *Halkin v. Helms*, 598 F.2d 1, 7 (D.C. Cir. 1978) (rejecting the possibility that plaintiffs' counsel be present when the privileged information, interceptions of plaintiffs' foreign communications by the National Security Agency, is reviewed in camera, and asserting "[h]owever helpful to the court the informed advocacy of the plaintiffs' counsel may be, we must be especially careful not to order any dissemination of information asserted to be privileged state secrets"); *Jabara v. Kelley*, 75 F.R.D. 475, 486-87 (E.D. Mich. 1977) ("In the case of claims of military or state secrets' privilege, however, the superiority of well-informed advocacy becomes less justifiable in view of the substantial risk of unauthorized disclosure of privileged information.").

<sup>115</sup> S. REP. NO. 110-442, at 19.

<sup>116</sup> *Id.* at 21.

alleged privileged information, these “best practices” have not been consistently implemented, and thus codification is worthwhile.<sup>117</sup>

Certainly the shift in the standard of consideration, from “utmost deference” to “substantial weight,” given to governmental assertions of the Privilege is the most substantive development.<sup>118</sup> The majority report on the bill notes that, “the government’s assertions deserve weight and respect, but they do not deserve a reprieve from the rigorous, independent judicial scrutiny demanded by our adjudicatory system.”<sup>119</sup>

Unquestionably, these are significant improvements towards ensuring that courts approach a government assertion of the Privilege with both greater skepticism and oversight. However, this legislation fails to protect inventors as well as it could given that the “substantial weight” standard still greatly favors the Privilege. The bill offers no recourse to inventors once the court concludes that material is privileged. Indeed, the majority report asserts that the bill provides a complete bar to the use of privileged items in discovery or as evidence.<sup>120</sup> Why similar procedural mechanisms considered sufficient to resolve the Privilege issue could not be applied to the underlying litigation is unexplained by the majority report. By using some of those mechanisms, inventors’ claims could proceed without risking national security in some situations. For instance, permitting the case to proceed in camera, with the documents kept under seal, would eliminate the concern that the information would be revealed as part of the public

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<sup>117</sup> *See id.* at 11 (“Many of these powers are already available to courts, but they often go unused.”).

<sup>118</sup> *Id.* at 51. Section 4054 lists the procedures for determining whether evidence is protected from disclosure by the state secrets privilege: “The court shall give substantial weight to an assertion by the United States relating to why public disclosure of an item of evidence would be reasonably likely to cause significant harm to the national defense or foreign relations of the United States.” *Id.*

<sup>119</sup> *Id.* at 12.

<sup>120</sup> *Id.* at 26.

record.<sup>121</sup> If the government expresses concern that the information could still be too easily accessed, the court could add restrictions such as especially secure storage and encryption.

Further, the entire proceeding could be held at a closed venue.<sup>122</sup> With regards to any concerns about appropriate personnel resource, private experts with the necessary clearances could be sought.<sup>123</sup>

The same security checks that could authorize opposing counsel for the Privilege hearing would presumably permit those attorneys to have access to try the case.<sup>124</sup> Alternatively, the court could order the government to provide a plaintiff with suitable counsel. While few military attorneys have the requisite patent litigation background, the relative scarcity of these cases should make this option feasible. Plainly, this option would be less desirable; inventors would obviously prefer to choose their own counsel. Nonetheless, this alternative is likely to be more

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<sup>121</sup> *Halpern v. United States*, 258 F.2d 36, 43 (2d Cir. 1958) (“[T]he privilege . . . is inapplicable when disclosure to court personnel in an in camera proceeding will not make the information public or endanger the national security.”); *Loral Corp. v. McDonnell Douglas Corp.*, 558 F.2d 1130, 1132-33 (2d Cir. 1977) (upholding both the trial judge’s decision to refer the case to a magistrate for confidential proceedings, and requiring the defense department to provide the necessary security clearances for “the judge and magistrate assigned to the case, the lawyers and any supporting personnel whose access to the material is necessary” in an ordinary contract dispute concerning work performed on classified equipment for the Air Force).

<sup>122</sup> *Clift v. United States*, 597 F.2d 826, 829 n.2 (2d Cir. 1979) (“It would seem quite possible to have an [i]n camera production in this case in a secured area at Fort Meade, where the documents are.”). Security-cleared court personnel could be provided by the executive department involved. *Id.* at 829 (suggesting that “some of the [g]overnment’s objections to an [i]n camera trial in that case may have been exaggerated”). The court noted that, “[i]t should not be difficult to obtain a court reporter and other essential court personnel with the necessary security clearance. If necessary, the stenographers who are now writing letters concerning this invention for the Department of the Navy can be utilized to record the testimony.” *Id.* at 829 n.2.

<sup>123</sup> *Id.* at 829 (“On the other hand while we sympathize with the judge’s admission that she would be unable to understand the significance of the documents without the aid of an independent expert, efforts could be made to locate such an expert with appropriate clearances.”).

<sup>124</sup> *See* Section IV and notes 122-123. *But see Halkin v. Helms*, 598 F.2d 1, 3 (D.C. Cir. 1978) (rejecting the possibility that plaintiffs’ counsel be present when the privileged information, interceptions of plaintiffs’ foreign communications by the National Security Agency, is reviewed in camera). The court noted that “however helpful to the court the informed advocacy of the plaintiffs’ counsel may be, we must be especially careful not to order any dissemination of information asserted to be privileged state secrets.” *Id.* at 7. *See also Jabara v. Kelley*, 75 F.R.D. 475, 481 (E.D. Mich. 1977) (“In the case of claims of military or state secrets’ privilege, however, the superiority of well-informed advocacy becomes less justifiable in view of the substantial risk of unauthorized disclosure of privileged information.”).

palatable to plaintiffs than to be stuck with unsupportable claims as a result of the suppression of crucial information.

One critical determinant as to whether these safeguards would be sufficient is the type of alleged invention at issue. In some cases, disclosure of the government's use of such devices to security-cleared litigants would appear unlikely to jeopardize national security. As Judge Newman noted, there may be areas of extreme sensitivity that cannot risk any judicial exposure (such as the Manhattan Project). A situation similar to the hypothetical disclosure of the Manhattan Project did, in fact, arise in *Hudson River Sloop Clearwater, Inc. v. Department of Navy*.<sup>125</sup> In *Hudson River Sloop*, more than ten environmental groups filed suit, asserting that the Navy had failed to engage in the proper environmental protection analysis prior to docking nuclear-armed vessels in New York ports.<sup>126</sup> The Navy claimed that the identity of nuclear-armed (as opposed to conventionally armed) ships was confidential, and a judicial decision in favor of the plaintiffs would breach national security by indicating to observers which ships carried nuclear weapons.<sup>127</sup> As the outcome of the suit could not remain secret, the Navy argued, the proceeding itself posed the threat of a violation of national security.<sup>128</sup> The court agreed, acknowledging that while in camera proceedings might provide some protection against public scrutiny, other parts of judicial proceedings are public and could result in a confidentiality breach.<sup>129</sup> Although the court could have ordered that its final determination remain sealed and placed a gag order on the plaintiff groups, given the number of people involved, as well as the

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<sup>125</sup> *Hudson River Sloop Clearwater, Inc. v. Dep't of the Navy*, No. CV-86-3292, 1989 WL 50794 (E.D.N.Y. May 4, 1989).

<sup>126</sup> *Id.*

<sup>127</sup> *Id.* at \*5.

<sup>128</sup> *Id.*

<sup>129</sup> *Id.* at \*3.

yes-or-no nature of the confidentiality (the ships did or did not carry nuclear weapons), such a ruling was arguably appropriate.

By contrast, for the Crater coupler and most other inventions, merely elevating the protections afforded to the evidence would suffice.<sup>130</sup> The Crater coupler was intended to be used on underground fiber optic cables; the location of such cables themselves is not generally known, and they are usually miles under the ocean. Moreover, knowledge that Crater had prevailed in litigation, thus establishing that the United States uses a particular kind of coupler to connect cables in secret locations on the ocean floor, is almost certainly useless to the nation's enemies. Details will vary from case to case, but the Privilege does not justify the quashing of all such litigation.

It is true that there may be circumstances in which the danger is too great to justify providing even security-cleared inventors access to the privileged information. Consider, for instance, the cryptographic device at issue in *Clift*.<sup>131</sup> Concealment of cryptography is so critical to intelligence gathering that any possibility of its disclosure, even a small, carefully controlled one, is a significant threat to national security. In light of this, a court might reasonably conclude that no amount of procedural safeguards might be considered sufficient to permit the government to prove its use of an alternative design. But, in other cases, the sensitive information at issue is often already acknowledged to be in the possession of the inventor. For instance, in *Halpern*, the plaintiff asserted his claims under the Invention Secrecy Act; the purported privileged information was the patent application which the inventor himself submitted.<sup>132</sup> Responding to the government's invocation of the Privilege, the court ordered the case to proceed in camera. The court found the government's argument that any use of the application would constitute an

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<sup>130</sup> *Crater Corp. v. Lucent Techs., Inc.*, 423 F.3d 1260, 1271 (Fed. Cir. 2005).

<sup>131</sup> *Clift v. United States*, 597 F.2d 826, 829 (2d Cir. 1979).

<sup>132</sup> *Halpern v. United States*, 258 F.2d 36, 44 (2d Cir. 1958).

unacceptable risk to national security unconvincing because the inventor was only seeking evidentiary proof of the submission of his own application.<sup>133</sup> Likewise, where the government had appropriated the patented invention as its own, the essence of the government's device is presumably already known to the patent holder. Even if some minor modifications were made to the device, redaction to withhold those changes should avert any concern, and in such cases, the government's protestations ring hollow.

There may be circumstances in which even the enhanced procedural safeguards described in the bill, if applied beyond the Privilege hearing to actual litigation, would be insufficient to defend governmental interests. In that small fraction of national security situations, the complete suppression of sensitive information will be warranted. However, courts should be obliged to consider whether the particular circumstances, such as those in *Crater*, would permit it to address any legitimate security concerns using the aforementioned procedural mechanisms rather than the draconian response of suppressing the material completely. Neither the *Crater* court nor the proposed bill offers any explanation for the failure to apply these types of procedural mechanisms to the underlying action. Along with the constitutional and long-term national security problems caused by the destruction of claims, the courts' fundamental obligation to hear valid claims should compel them to consider these alternatives instead of simply rubber-stamping the government's request for an extreme response to the invocation of the Privilege.

## V. Conclusion

The result in *Lucent v. Crater* is every inventor's nightmare: a valuable idea, stolen, with no recourse. Unfortunately, rather than carefully parse out possible alternative approaches to

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<sup>133</sup> *Id.*; see *Clift*, 597 F.2d at 829 (noting that, as in *Halpern*, "Mr. Clift also knows what his invention is; indeed the world knows it as a result of the lifting of the secrecy order and subsequent issuance of the patent," but concluding that nonetheless Halpern might have had access to other classified information that he did not already possess).

recognizing the Privilege, the Federal Circuit permitted the Privilege to defeat the inventors' claims. In the context of claims regarding unauthorized military use of inventions, this reaction has the potential to engender several serious problems.

As demonstrated in *Crater*, under some circumstances, the suppression may disregard inventors' constitutional rights. Where the government has misappropriated (directly or indirectly) a trade secret, the owner has a constitutional right to compensation for the taking. Suppression of the evidence needed to prove the owner's trade secret claim removes this constitutionally mandated remedy. To add salt to the constitutional wound, any direct takings claim would generally fall victim to the same problem.

Equally problematic is the deterring effect of the destruction of inventors' claims (whether patent or trade secret) that will fall disproportionately on smaller businesses. This result is alarming, as it directly conflicts with the Department of Defense's contention that smaller businesses will need to produce a substantial share of the next generation of defense technology in order to maximize the nation's security. This is at odds with the Department's stated goals of encouraging small businesses to consider the Department of Defense as a potential customer for technological innovation. Smaller businesses, already facing substantial obstacles in breaking into the defense procurement market, lack the political influence and long-term institutional relationships to ensure that the military will properly license their technology. As a result, these businesses must rely primarily on legal protection, rather than political or economic clout, to vindicate their intellectual property rights. If the application of the Privilege strips these smaller inventors of this protection, they may be disinclined to pursue inventions sought after by the military. In essence, the nation's long-term defense strategy is being taken hostage by a short-term litigation strategy.

Given these grave problems, as well as the judicial system's fundamental obligation to hear valid claims whenever possible, it is incumbent upon courts to consider more carefully whether the termination of most such litigation is truly required, or whether, in the presence of appropriate procedural mechanisms, some innovators could be permitted to pursue their claims. . Indeed, recently proposed legislation instructs courts to use a variety of protective procedural mechanisms to protect sensitive information during the determination of the application of the Privilege. Yet the legislation inexplicably also authorizes, without apparent further consideration, complete suppression of any information eventually deemed privileged. This result appears unnecessary, as most of those same mechanisms could be applied equally well to an entire litigation proceeding.

It is true that there still may be the rare situation in which either the particularly sensitive nature of the invention, or the strategic inferences suggested by a judgment, indicates that no procedural safeguards would be sufficient to protect defense interests. In such a circumstance, there may be no recourse other than to terminate the litigation regardless of the immediate cost to the inventors and long-term costs to other government goals. But in contrary situations, which are likely to be more common, courts should search for an approach that will protect sensitive information without forcing inventors to have to pay the price (literally and figuratively) for the government's use of the Privilege.