

debtor of a righteous defense. On May 8, 1891, both were debts presently due, and either was a proper set-off against the other. Judgment of the circuit court affirmed.

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In re SHEFFIELD et al.

(Circuit Court, D. Kentucky. December 1, 1894.)

1. CONSTITUTIONAL LAW—TAXATION—PATENT RIGHTS.

The exclusive right to make, use, and vend an invention or discovery, granted by letters patent of the United States, cannot be taxed by a state.

2. SAME.

A statute of Kentucky declared that all itinerant persons, vending patent rights, should be deemed peddlers, and imposed a license tax upon peddlers, which, for vendors of patent rights, was double the amount required of others. *Held*, that this was a taxation of patent rights granted by the United States, and so unconstitutional and void.

This was a petition for a writ of habeas corpus by C. P. Sheffield and S. O. Edmunds, alleging that they were illegally restrained of their liberty by the jailer of Simpson county, Ky. The jailer made return to the writ that the petitioners were in his custody upon a surrender by their bail in a prosecution for selling patent rights without payment of license tax, in violation of a statute of Kentucky.

R. S. Brown, for relator.

G. T. Finn, for respondent.

BARR, District Judge. The material question which arises on the return of Davidson, jailer of Simpson county, is whether or not the statute of Kentucky which requires the payment of a license tax and the obtaining of a license from the county court of a county by peddlers before they can sell or offer for sale a patent right, or any territory covered by such patent right, which has been granted by the United States, is constitutional. It appears in this case the petitioners have paid a license tax and obtained a license from the county court of Simpson county to sell a patent article known as "Animal Releasing Devices" in said county. But they have not paid the license tax or obtained a license from said county court to sell or offer for sale the patent right itself or any part of the territory covered by said patent. The petitioners are being prosecuted for selling or offering for sale this patent right without having paid said license tax to thus sell and offer for sale said patent right. They gave bond for their appearance to the next term of the court, and have been surrendered by their bail to the jailer who had them in custody at the time of the service of the writ of habeas corpus, and who has produced them in the court with his return of the cause of their detention. The 4216th section of the Kentucky Statutes declares that "all itinerant persons vending lightning rods, patent rights or territory for the sale, use or manufacture of patent rights, \* \* \* shall be deemed peddlers." Section 4219 declares that the county court of each county shall have exclusive jurisdiction to grant ped-

liers' licenses, and that the applicant for license shall prove in open court, by at least two credible witnesses, that the applicant is a person of good moral character. Section 4225 fixes \$100 as the license tax for peddlers for the entire state, and one-fourth thereof for each county when license is issued for one county; but declares vendors of patent rights, or territory for the sale of patent rights or patent articles, shall pay double that sum.

The provision of section 4219 is, we think, the exercise of the police power of the state, but the other provisions are clearly the exercise of the power of taxation. Thus the question arises whether "the exclusive right to make, use, and vend the invention or discovery" of a patentee or his assignee, which is granted by the United States, can be taxed by a state. The right to make, vend, and use an invention or discovery by the inventor or discoverer exists independent of the authority of the United States. But the exclusive right to make, use, and vend an invention or discovery is given to the patentee and his assignees by the United States. This right of exclusion is a species of incorporeal property which is valuable. The right, without the exclusion, would not be and is not such a right as could be taxed as property. The invention or discovery, so long as it remains with the inventor or discoverer, is ideal merely; and it is only when the invention or discovery takes shape, and results in some material thing, it can be called property and taxed as such. This right of exclusion is an incorporeal right, which is valuable, and may be considered personal property. The Kentucky statute recognizes this, and therefore seeks to tax the patent right (the right of exclusion) by requiring for its sale the payment of a license tax. This license tax is double that required for the sale of goods, merchandise, and other property. The question is not whether the state of Kentucky can tax a patented article or thing as other property is taxed, or tax the dealing in such articles or things as dealings in other property are taxed, by requiring the payment of a license tax. Hence the decision of the supreme court in *Webber v. Virginia*, 103 U. S. 344, and the principle therein announced, have no application to the case under consideration, nor has the decision in *Patterson v. Kentucky*, 97 U. S. 501, any application. In the *Webber Case* the license tax was upon the sale of the article manufactured under a patent, and it was decided that there was a discrimination in the tax required for the sale of articles manufactured out of the state of Virginia and those manufactured in that state. For the sale of the latter no license tax was required, and this was held unconstitutional. In that case the supreme court, by Justice Field, say:

"The right conferred by the patent laws of the United States to inventors to sell their inventions and discoveries does not take the tangible property in which the invention or discovery may be exhibited or carried into effect."

And again, in discussing the exercise of the police power of a state, the court say:

"A patent for the manufacture and sale of a deadly poison does not lessen the right of a state to control its handling and use. The legislation respecting the articles which the state may adopt after the patents have expired, it

may equally adopt during their continuance. It is only the right to the invention or discovery—the incorporeal right—which the state cannot interfere with.”

These quotations show, while the present question was not before the court, Justice Field had in his mind and drew a distinction between the tangible property which is the fruit of an invention or discovery and the incorporeal right,—the exclusion of others from making, using, or vending an invention or discovery. The Case of Patterson was where “an improved burning oil,” which had been patented, did not come up to an inspection required by a state statute, and had been condemned as unsafe for illuminating purposes, and its sale for such purposes prohibited. The supreme court, affirming the Kentucky court of appeals, held this statute was a proper exercise of the police power of the state, and that the patent did not give the patentee the absolute right of sale without regard to the safety to others or the exercise of the general police power of the state. This was the view of the Kentucky court, who said:

“The discovery or invention is made property by reason of the patent, and this right of property the patentee can dispose of under the law of congress, and no state legislation can deprive him of this right; but when the fruits of the invention or the article made, by reason of the application of the principle discovered, is attempted to be sold or used within the jurisdiction of a state, it is subject to its laws, like other property.” 11 Bush, 312.

But it is insisted that this license tax is a tax on the business of the person who peddles. Yet it must be a tax on the sale of the patent rights sold, and this is made clear by the statute itself, which makes the license double that for the sale of goods, merchandise, and other property. *Machine Co. v. Gage*, 100 U. S. 678. Thus the question must be, can a state tax, or authorize a county or city to tax, a right—an incorporeal right—which is granted by the United States, and which, under the constitution, can alone be granted by the United States? We think that question must be answered in the negative, under the principle settled in the case of *McCulloch v. State of Maryland*, 4 Wheat. 316, and the many subsequent cases. In the case of *Weston v. Charleston*, 2 Pet. 449, the court held that a tax on stock of the United States held by an individual citizen of a state is a tax on the power to borrow money on the credit of the United States, and cannot be levied by or under the authority of a state. In that case Chief Justice Marshall took occasion to state the principle upon which the previous case of *McCulloch v. State of Maryland* was decided, and said:

“The question decided in that case bears a near resemblance to that which is involved in this. It was discussed at the bar in all its relations, and examined by the court with its utmost attention. We will not repeat the reasoning which conducted us to the conclusion thus formed; but that conclusion was that ‘all subjects over which the sovereign power of a state extends are objects of taxation, but those over which it does not extend are, upon the soundest principles, exempt from taxation.’ ‘The sovereignty of a state extends to everything which exists by its own authority or is introduced by its permission,’ but not ‘to those means which are employed by congress to carry into execution powers conferred on that body by the people of the United States.’ ‘The attempt to use’ the power of taxation on

the means employed by the government of the Union, in pursuance of the constitution, is itself an abuse, because it is the usurpation of a power which the people of a single state cannot give."

The court said in that case that "the states have no power, by taxation or otherwise, to retard, impede, burden, or in any manner control, the operation of the constitutional laws enacted by congress, to carry into execution the powers vested in the general government." See, also, *Dobbins v. Erie Co.*, 16 Pet. 435, and the *National Bank Cases*, in which the shares in these banks are taxed because of the provision of the national banking law passed by congress. 2 Black. 620; 2 Wall. 200; *Van Allen v. Assessors*, 3 Wall. 573; *First Nat. Bank v. Kentucky*, 9 Wall. 358; *Bradley v. People*, 4 Wall. 459.

But, without reviewing the many cases in which the authority of a state to regulate the manufacture, use, and sale of patented rights and patented articles are discussed and decided, we think the correct doctrine is that the grant of patent rights is given by the United States subject to the exercise of the police power of the several states of the Union, and that the patented articles are subject to the taxing power of the several states, if there be no discrimination in such taxation as between other property in the state and the patented article or thing. But the patent right itself, i. e. the right to exclude all others from the manufacture, use, or sale of the invention or discovery, which is a grant by the United States, cannot be taxed by a state. If the authority to tax such a right of exclusion exists at all, the limitation upon its exercise must depend alone upon the constitution and laws of the several states, and such an authority is utterly inconsistent with the grant of the patent right which is by the constitution of the United States given exclusively to congress. This view is fully sustained by the case of *Ex parte Robinson*, decided by Justice Davis, and reported in 2 Biss. 313, Fed. Cas. No. 11,932, and the case of *State v. Butler*, reported in 3 Lea, 222, and is entirely consistent with the opinions in *Webber v. Virginia* and *Patterson v. Kentucky*, supra, and the decision of Judge Cooley in *People v. Russell*, 49 Mich. 617, 14 N. W. 568. In this case the state of Kentucky has not only levied a tax upon the inchoate right (patent right) which has been granted under the authority of the United States, but has made a discriminating tax by requiring the payment of a license tax in double the amount required for peddling goods, merchandise, and other property. We conclude the statutes of Kentucky, under which the petitioners, Sheffield and Edmunds, are prosecuted and imprisoned, are unconstitutional and void. They (Sheffield and Edmunds) are therefore imprisoned without lawful authority, and should be released from the custody of said Davidson, jailer of Simpson county, and it is so ordered.

**ENTERPRISE SAV. ASS'N v. ZUMSTEIN, Postmaster.**

(Circuit Court, S. D. Ohio, W. D. November 10, 1894.)

**LOTTERIES—USE OF MAILS—PROHIBITION BY POSTMASTER GENERAL—DISCRETION—CONTROL BY COURTS.**

Rev. St. § 396, makes it the duty of the postmaster general to instruct all persons in the postal service with reference to their duties, etc. Sections 3929 and 4041 provide that the postmaster general may, "upon evidence satisfactory to him" that any person is conducting a lottery, etc., or any scheme for obtaining money through the mails by false pretenses, instruct postmasters to mark "fraudulent" and return registered letters, directed to such person, to the postmasters at the offices at which they were mailed, to be returned to the writers thereof; and may forbid the payment by any postmaster to any such person of any postal money drawn to his order or in his favor. *Held*, that the discretion of the postmaster general in respect to the matters referred to in such statutes cannot be supervised or controlled by the federal courts.

This was a bill by the Enterprise Savings Association against John Zumstein, postmaster of the city of Cincinnati, Ohio, for an injunction. Defendant demurred to the bill.

Chas. W. Baker and Michael G. Heintz, for complainant.  
Harlow Cleveland, U. S. Atty., for defendant.

**SAGE**, District Judge. The bill sets forth the articles of incorporation, by-laws, and plan of business of the complainant, which issues certificates "in blocks of three," the purchaser paying for each certificate, in cash, the sum of \$15,—that is to say, \$5 for each certificate,—at the time of their issuance and delivery to him. By the terms of the contract of the certificate, it is paid up in full by monthly payments in 5 years and 5 months from its date, the full amount being \$100. Thereupon the holder receives a paid-up certificate in lieu of the original contract certificate, and is released from any further payments, the association agreeing to redeem the same not later than 120 months from the date of the original contract certificate. The holder meantime is to receive interest at 6 per cent. per annum, and finally the principal, together with his share of such profits as in the meantime have been made by the association. The initial payment of \$5 on each certificate, or \$15 on each block of certificates, is applied to the establishment and support of agencies and of canvassing, and the payment of incidental expenses. Of the \$1.50 required to be paid each month succeeding the first month, \$1 is paid into what is known as the "maturity fund," out of which the certificates maturing are paid. Twenty-five cents goes to the maintenance of the general expenses of the company, and the other twenty-five cents to the reserve fund. This is, in short, the published scheme of the company. A maturity table is prepared and employed, which begins with the certificates, which are numbered, with the lowest numbered certificates then in force, beginning with number 1, and proceeding by multiples of three of the live certificates. The bill sets forth that since the complainant began doing business, which was shortly after its incorporation, on the 26th of April, 1894, it has issued 1,524 certificates. On the last day of July, 1894, there were 995 certificates not lapsed, matured, or for-

feited, while up to that time 1,500 certificates had been issued. The complainant was created and organized under the laws of the state of West Virginia. It opened an office in the city of Cincinnati almost immediately after its incorporation, and has maintained it ever since.

The complaint of the bill is that the defendant, being postmaster of the city of Cincinnati, arbitrarily, illegally, and without right, has undertaken to interfere with, stop, and prevent the employment and the use by the complainant of the mails and the registry department of the post-office department of the post office of the city of Cincinnati, and that the defendant bases his action in such interference and denial to complainant of the postal facilities of the post office of the city of Cincinnati, upon an order received by him from the postmaster general of the United States, under date March 31, 1894, which the defendant has exhibited to the complainant, and which the defendant makes as his excuse for his action aforesaid. The order is as follows:

"Order No. 100.

"It having been made to appear to the satisfaction of the postmaster general that the Enterprise Savings Association, S. A. Stevens, Pres., J. C. Groene, Vice Pres., W. R. Sypher, Treas., C. K. Eban, Secy., J. S. Munsell, Genl. Manager at No. 610 Neave Building, Cincinnati, O., are engaged in conducting a lottery or similar enterprise for the distribution of money or personal property by lot or chance through the mails, in violation of the provisions of section 3894, Revised Statutes of the United States, as amended:

"Now, therefore, by authority vested in the postmaster general by sections 3929 and 4041, Revised Statutes of the United States, and by act approved Sept. 19, 1890, I do forbid the payment by the postmaster at Cincinnati, O., of any postal order drawn to the order of said company and its officers aforesaid, and that the said postmaster is hereby directed to inform the remitter of said postal money order that payment thereof has been forbidden, and that the sum of said money order will be returned upon presentation of a duplicate money order applied for and obtained under the regulations of the department.

"And, upon the same evidence, the postmaster at Cincinnati, O., aforesaid, is hereby instructed to return all registered letters which shall arrive at his office, directed to the said company and its officers aforesaid, to the postmasters at the offices at which they were originally mailed, with the word 'Fraudulent' plainly written or stamped upon the outside of such letters.

"[Signed]

W. S. Bissell, Postmaster General.

"To Postmaster, Cincinnati, O."

The bill then specifies instances of the defendant's refusal to recognize or pay postal money orders in favor of and presented by the complainant, and instances of his refusal to deliver registered letters received in said post office, and addressed to the complainant, charging that said letters were stamped with the word "Fraudulent" across the envelopes, and returned to the post offices from which they were sent. The prayer is for an injunction prohibiting the defendant from interfering with the employment of the post office of Cincinnati in the conduct of complainant's business, and from withholding registered letters received and addressed and directed to the defendant, and from withholding payment of money orders addressed to and received by him. The defendant has filed a general demurrer for insufficiency.

Section 396 of the Revised Statutes makes it the duty of the postmaster general to instruct all persons in the postal service with reference to their duty, and to superintend generally the business of the department, and execute all laws relative to the postal service.

Section 3834 requires every postmaster, before entering upon the duties of his office, to give bond for the faithful discharge of all duties imposed on him either by law or the rules and regulations of the department. This section subjects the postmaster to the orders of the postmaster general.

Section 3926 authorizes the postmaster to establish a uniform system of registration for the greater security of valuable mail matter. It provides that neither the post-office department nor its revenue shall be liable for the loss of any mail matter on account of its having been registered.

Section 4027 authorizes the postmaster to establish and maintain, under such rules and regulations as he may deem expedient, a uniform money-order system at all suitable post offices, which shall be designated as "money-order offices." This authorization, it is expressed in the section, is to promote public convenience, and to insure greater security in the transfer of money through the mail.

Sections 3929 and 4041 read as follows:

"Sec. 3929. The postmaster general may, upon evidence satisfactory to him that any person is engaged in conducting any fraudulent lottery, gift-enterprise, or scheme for the distribution of money or of any real or personal property, by lot, chance or drawing of any kind, or in conducting any scheme or device for obtaining money through the mails by means of false or fraudulent pretenses, representations or promises, instruct postmasters at any post office at which registered letters arrive, directed to any such persons, to return all such registered letters to the postmasters at the offices at which they were originally mailed, with the word 'Fraudulent' plainly written or stamped upon the outside of such letters; and all such letters so returned to such postmasters shall be by them returned to the writers thereof, under such regulations as the postmaster general may prescribe. But nothing contained in this title shall be so construed as to authorize any postmaster or other person to open any letter not addressed to himself."

"Sec. 4041. The postmaster general may, upon evidence satisfactory to him that any person is engaged in conducting any fraudulent lottery, gift-enterprise, or scheme for the distribution of money, by lot, chance, or drawing of any kind, or in conducting any other scheme or device for obtaining money through the mails by means of false or fraudulent pretenses, representations, or promises, forbid the payment by any postmaster, to any such person of any postal money drawn to his order or in his favor, and may provide by regulations for the return, to the remitter, of the sums named in such money orders. But this shall not authorize any person to open any letter not addressed to himself."

The sections above cited and quoted vest in the postmaster general complete control and authority over the money-order and registered letter department of the postal service. They make every postmaster subject to his orders. They also vest in him a discretion, "upon evidence satisfactory to him" that any person is conducting any fraudulent lottery, gift enterprise, or scheme for the distribution of money, or of any real or personal property by lot, chance, or drawing of any kind, or in conducting any other scheme or device for obtaining money through the mails by means of false or fraudulent

pretenses, representations, or promises, to instruct postmasters at any post office at which registered letters arrive, directed to such person, to return such letters to the postmasters at the offices at which they were mailed, after writing or stamping upon the outside of such letters the word "Fraudulent;" and all such letters, when so returned, are to be delivered to the writers thereof, under such regulations as the postmaster general may prescribe. The payment of postal money orders drawn to the order of or in favor of any such person may be forbidden by the postmaster general upon evidence satisfactory to him that any person is engaged in conducting any fraudulent lottery, gift enterprise, or scheme as above set forth; and the postmaster general may provide for the return to the remitter of the sums named in such money orders. No citizen has a vested right to the use either of the registered letter or postal money order system. Every citizen has the privilege of both, subject to the discretion which is vested in the postmaster general. It is the duty of every postmaster to obey the orders of the postmaster general, made in pursuance of the statutory provisions above quoted, and in the exercise of his discretion. The question then is whether this discretion can be supervised or controlled by federal courts. It is not a new question. It was first considered in the case of *Marbury v. Madison*, 1 Cranch, 137. In that case, at page 166, the supreme court was of opinion that the president is vested with certain political power, to be exercised in his own discretion. Whatever opinion might be entertained of the manner in which that discretion was used, there existed and could exist no power to control it.

It has been repeatedly held by the supreme court that a mandamus will not lie to the head of a department to enforce the performance of an executive duty involving the exercise of judgment or discretion. See *Bank v. Paulding*, 14 Pet. 497; *Brashear v. Mason*, 6 How. 92; *U. S. v. Seaman*, 17 How. 225; *Gaines v. Thompson*, 7 Wall. 347. In *Gaines v. Thompson* it was held that the act of the secretary of the interior and of the commissioner of the land office in canceling an entry for land is not a ministerial duty, but is a matter resting in the judgment and discretion of those officers, as representing the executive department; and that the court would not interfere by injunction more than by mandamus to control it. Mr. Justice Miller, in delivering the opinion of the court, reviews the cases from *Marbury v. Madison* down. A ministerial duty was defined in *Mississippi v. Johnson*, 4 Wall. 475, as one in respect to which nothing is left to discretion. In *Gaines v. Thompson* the court held that an officer to whom public duties are confided by law is not subject to the control of the courts in the exercise of the judgment and discretion with which he is vested by law. The reason given by the court is that the law reposes the discretion in the officer, and not in the courts.

To the same effect are *U. S. v. Black*, 128 U. S. 40, 9 Sup. Ct. 12, and *U. S. v. Windom*, 137 U. S. 636, 11 Sup. Ct. 197.

In the case now before the court, the postmaster general was authorized to act upon evidence satisfactory to him. What he did under that authorization cannot be regarded as a ministerial act.



It was in the exercise of a discretion, and it cannot be supervised or controlled by this court.

The demurrer will be sustained, and the bill dismissed, at the cost of the complainant.

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PILLSBURY et al. v. PILLSBURY-WASHBURN FLOUR MILLS CO.,  
Limited.

(Circuit Court of Appeals, Seventh Circuit. November 27, 1894.)

No. 193.

1. UNFAIR COMPETITION—COLORABLE IMITATION OF BRAND.

C. A. P. & Co. had for many years been engaged in manufacturing and selling flour which had acquired a high reputation and extensive sale. In 1872 they adopted a mark or brand which they applied to the packages containing their flour, consisting of the name P., the name of the place of manufacture, "M., Minn.," the letters "XXXX," and the word "Best," in large letters of a peculiar design, all arranged in a circular form, surrounded by two lines of dots, with the name P. in a vertical line at each side, the whole being printed in blue, except the word "Best," which was printed in red. The business of C. A. P. & Co., and the right to use such mark or brand, were sold in 1889 to complainant, a corporation organized and managed by the members of the firm, which continued the manufacture and sale of the flour and the use of the mark or brand. In 1893 defendant L. F. P. commenced, at a small town in Illinois, the business of buying flour and putting it up and selling it in packages on which he placed a mark or brand of similar form to that of complainant, in which the name L. F. P. was substituted for the name P. alone, in the same part of the circular device and in the vertical lines, the word "Minnesota" was substituted for "M., Minn.," the letters "XXXX" were placed above instead of below the word "Best," which was printed in letters of the same size but slightly different design from those on complainant's brand, the word "Patent" was added, and the lines of dots surrounding the circular device were increased to three; the whole, except the word "Best," being printed in blue, and the word "Best" in red. *Held*, that defendant's mark constituted a colorable imitation of complainant's mark, manifestly intended to dress up defendant's goods in the appearance of complainant's goods, and mislead the public into buying them as such, and that its use should be enjoined.

2. SAME—COMING INTO EQUITY WITH CLEAN HANDS.

*Held*, further, that even if the use of the mark by a corporation actually managed by a member of the firm which originally manufactured the flour and devised the mark could be considered a false representation as to the actual makers of the flour, the fact that prior to defendant's commencing business the corporation had begun to stamp all its packages with its own name, as "successor" to the former firm, obviated any objection on this ground to complainant's right to an injunction.

Appeal from the Circuit Court of the United States for the Northern District of Illinois.

This was a bill in equity, brought by the Pillsbury-Washburn Flour Mills Company, Limited, against L. F. Pillsbury and Ephraim Hewitt, to restrain the use by defendants of a mark or brand alleged to be a fraudulent imitation of complainant's brand. The circuit court made an order granting to complainant a preliminary injunction. Defendants appeal.

This is an appeal from the order of the court below passed on the 2d day of July, 1894, granting a writ of injunction, and the question is upon the validity of the restraints thereby imposed.