

## WESTINGHOUSE ELECTRIC &amp; MANUF'G CO. v. STANLEY.

(Circuit Court, D. Massachusetts. January 22, 1895.)

No. 350.

**EQUITY PLEADING—SUFFICIENCY OF PLEA—SUIT FOR INFRINGEMENT OF PATENT.**

A plea to a bill for infringement alleged that complainants, before securing the patent, "became and were fully advised" that the alleged inventor could not carry back his invention beyond a given date, and that an examiner in the patent office had found, "as was the fact," that the invention had been described in previous publications. *Held*, that the plea was bad, because it failed to allege directly that the inventor could not carry back his invention beyond the date named, and that the invention had been described in previous publications, but was couched in such language that a traverse would only deny that complainants "were advised," etc., and that the "examiner found," etc.

This was a bill by the Westinghouse Electric & Manufacturing Company against William Stanley, Jr., for infringement of a patent. Heard on a plea to the bill.

H. S. MacKaye, for complainant.

Samuel A. Duncan, for respondent.

CARPENTER, District Judge. This is a bill in equity to enjoin an alleged infringement of letters patent No. 469,809, issued March 1, 1892, to the respondent, for improvements in systems of electrical distribution. The respondent has filed a plea, which is now set down for hearing, and has been argued, in which he alleges that prior to the application for the patent the respondent had assigned the invention to the complainant, and that the application was prosecuted by the complainant; "that the assignment aforesaid was made without any special consideration therefor, but in pursuance of the provisions of a general contract entered into by and between this defendant and one George Westinghouse, Jr., under date of May 20, 1884, whereby this defendant obligated himself to assign to the said Westinghouse, or to such company as the said Westinghouse might organize (the Westinghouse Electric Company being the company contemplated by such contract), not only the patents relating to electrical engineering which he had already taken out in the United States, and the right to patent in the United States certain electrical inventions for which applications were then pending, but also the right for the United States in such inventions in electrical engineering as this defendant might thereafter make during the continuance of such contract, it being specially provided in such contract that the assignment of such future inventions—among which the invention covered by letters patent No. 469,809 is included—was to be without other or additional consideration,—that is, other than the general consideration named in said contract"; that an interference was declared between the application and the patent No. 368,936, "which had been granted on the same invention to one Marmaduke M. M. Slaterry, under date of July 31, 1888"; that preliminary statements were filed by both parties, "and that by the said preliminary statement and the amendment thereto, as well as by the

various conferences in connection therewith which this defendant had with the attorneys and the officers of the said company, the said company and the officers thereof became and were fully advised that this defendant's date of invention could not be carried further back than the month of September, 1885, and in like manner, by the duly-verified preliminary statement filed in the said interference by the said Slattery, the said company became and was fully advised that the said Slattery could not carry his date of invention further back than the month of June, 1886"; that thereafter the Westinghouse Electric Company sent to Glasgow to negotiate with one Rankin Kennedy for the purchase of an invention claimed to have been made by said Rankin Kennedy, and that the said invention was the same as that described and claimed by the respondent in the aforesaid application; that the Westinghouse Company did, in fact, buy said invention, and filed an application, wholly at its own expense, for a United States patent therefor; that on or about January 2, 1889, and before said Kennedy's application had been acted on by the patent office examiner, the Westinghouse Electric Company called the attention of said examiner to certain publications of said Kennedy, published in London in 1883, with the object in view of establishing "for the said Kennedy an earlier date of invention than either this defendant or the said Slattery could prove in the said interference"; that afterwards, and when the examiner had rejected the Kennedy application, as anticipated by Slattery, "the said company, through its attorney, while not denying that the invention of the Kennedy application was the same as that of the Slattery patent on which it had been rejected, insisted that the invention was described in the said articles published by the said Kennedy in the year 1883, and therefore at a date which was earlier than any date which either the said Slattery or this defendant could assert or maintain; that on a review of the said articles the examiner having the matter in charge found officially, as was the fact, that the invention was fully described in the said articles, and that thereupon the examiner receded from his rejection of the said application, and allowed the same, the application going to a patent on the 16th day of July, 1889"; that the Westinghouse Electric Company, and subsequently complainant herein, took full charge of the prosecution of the interference above mentioned, and paid all expenses; that said interference was decided in favor of defendant's application, and the decision was confirmed on appeal by the commissioner; "that in rendering his decision to this effect the said commissioner of patents found upon the evidence in the whole case, as was the fact, that this defendant had not made the invention in question prior to the month of September, 1885, which was subsequent to the date at which it appeared by the facts then in possession of the patent office that the same invention had been made by the aforesaid Rankin Kennedy, and thereupon, in remanding the case to the examiner for further proceedings, in accordance with the established practice under the statute in such cases made and provided, the commissioner directed the examiner to consider carefully the aforesaid articles of

Rankin Kennedy, published in the year 1883, as well as various other printed publications published prior to the year 1885, with view to determining whether they did not anticipate whatever otherwise was patentable in the claims contained in the said application filed in the name of this defendant"; that it was thereupon, "as this defendant is informed and believes," the duty of the examiner to refuse Stanley's assignee a patent on the ground of anticipation by said references, but that nevertheless the examiner, in contravention of law, and ignoring his duty in the premises, did pass the Stanley application to issue; and that the complainant, by reason of the acts and knowledge aforesaid, was estopped from taking the patent, and that the prosecution of the application "with the full knowledge and belief \* \* \* that the said Kennedy, and not this defendant, was the earlier inventor or discoverer of the said invention, was in violation of the statute, and contrary to equity, and that the patent thus obtained was wrongfully and fraudulently obtained, and was and is wholly null and void, and cannot be respected by a court of equity."

The question is as to the sufficiency of this plea. The allegation as to the consideration for the contract by which the invention was sold to the complainant does not seem to me to present any defense. It is, in effect, an allegation that the invention was sold to the complainant for a consideration. But the main contention of the argument for the respondent is that the plea is good, because it alleges that "the invention of the patent in suit was not made by Stanley until September, 1885, and yet the same invention had been described in printed publications in the year 1883." The sufficient answer to this argument is that the plea does not so allege with the directness and in the manner which is required in a plea. The allegation is that the company "became and were fully advised" that the Stanley invention dated no further back than September, 1885, and that the examiner found, "as was the fact," that the invention had been described in prior publications. There are not distinct allegations that the invention of Stanley was made not earlier than 1883, and that the invention had been earlier described. A traverse of the plea would only deny that the company was advised, and that the examiner found as stated in the plea. In other words, in order to reach the trial of the question whether the invention had been before described, and whether, accordingly, the patent is void, the respondent must deny the inferences, and not the allegations, of the plea. There is no single definitely stated issue, and so, as it seems to me, the plea is bad, and must be overruled.

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SANTA ANA WATER CO. v. TOWN OF SAN BUENAVENTURA et al.

(Circuit Court, S. D. California. January 14, 1895.)

No. 461.

**1. MUNICIPAL CORPORATIONS—OFFICERS—VACANCIES.**

The charter of the town of S. provided that its officers should consist of a board of five trustees, elected by popular vote, and a treasurer, clerk,

and others, who should be appointed by the trustees, and should perform various duties appropriate to their offices. The charter was silent as to whether the clerk and other officers should be appointed from the board of trustees or outside that body. A general act, applicable to the town, declared the causes which should create a vacancy in office, not including incompatibility of offices or acceptance of another office. *Held*, that the appointment to and acceptance of the offices of clerk and treasurer of the town by members of the board of trustees did not vacate their offices as trustees.

**2. SAME—FRAUD—TRUSTEES DEALING WITH THEMSELVES.**

A contract was made between the trustees of a town and A. and two associates for the supply of the town with water, three out of five trustees being present and participating in the making of the contract. One of these three trustees was jointly interested with A. and his associates in the subject-matter of the contract. *Held*, that such contract, both by the common law and by the statute of California prohibiting a trustee from contracting with himself (Pol. Code, §§ 920-922), was absolutely void.

**3. SAME—RATIFICATION BY LEGISLATURE.**

After the passage of the ordinance by which such contract was made, the legislature passed an act approving and ratifying the same, the fraud, however, not being disclosed to the legislature at the time. *Held*, that though the legislature could cure irregularities, and confirm proceedings which, without confirmation, would be void, because unauthorized, it did not, by the passage of the act referred to, ratify the undisclosed fraud.

This was a suit by the Santa Ana Water Company against the town of San Buenaventura and others for the enforcement of a contract. A demurrer to the bill was overruled. 56 Fed. 339. The defendants answered, and the cause is now heard on the pleadings and proofs.

Lamme & Wilde, for complainant.

W. E. Shepherd and George J. Denis, for defendants.

ROSS, District Judge. When this case was before the court on demurrer to the bill, it was held that the contract entered into January 4, 1869, between the defendant corporation and Jose De Arnaz, Victor Ustassauategui, and Francisco Molleda, in so far as it reserved to those parties the "unrestrained right to establish such rates for the supply of water to private persons as they may deem expedient, provided that such rates be general," and subject, also, to the implied condition that the rates be reasonable, was a valid contract in the hands of Arnaz and his associates, and passed by assignment to the complainant corporation. The facts upon which those rulings were based were admitted by the demurrer filed by the defendants to the bill. Subsequently, defendants answered the bill, and, upon the issues thus joined, proofs were taken, and the case has been heard on its merits. Except in respect to two affirmative defenses, the proofs establish the same facts as formed the basis of the rulings upon demurrer; and as I am satisfied of the correctness of the conclusions then reached, and with the reasons given in support of them, it is not necessary to go over that ground again. The case on demurrer will be found reported in 56 Fed. 339.

The affirmative defenses referred to are the following: The board of trustees of the defendant corporation, under the law creating it, consisted of five members, but three of whom—Tico, Chateneauf,

and Escandon—were present and authorized the execution of the contract in question. Tico had previously been elected clerk of the town, and accepted the position, and Chateneauf had been elected, and accepted the position of, treasurer thereof, each of whom, the defendants contend, thereby vacated his office as trustee, which, if true, left only one member of the board of trustees—Escandon—taking part in the execution of the contract on the part of the town. The answer also alleges that Chateneauf had a direct pecuniary interest with Arnaz, Ustassauategui, and Molleda at the time of the making of the contract, and that other trustees had such adverse interests at the time of its subsequent attempted ratification which rendered their acts on behalf of the town in respect to the contract void and of no effect.

In respect to the first of these defenses, it is contended on behalf of the defendants that there is such incompatibility between the office of trustee and clerk and trustee and treasurer of the town as rendered the acceptance by Tico of the clerkship a vacation of his office of trustee, and a like vacancy of Chateneauf's office of trustee by his acceptance of the position of treasurer. As pointed out in the former opinion herein, the defendant corporation is a municipal corporation, created by an act of the legislature of the state of California entitled "An act to incorporate the town of San Buenaventura," approved March 10, 1866 (St. 1866, p. 216), and was thereby invested with all the rights and privileges conferred by, and was made subject to all liabilities, restrictions, and provisions of, an act entitled "An act to provide for the incorporation of towns," approved April 19, 1856 (St. 1856, p. 198), so far as the provisions of that act may be consistent with the provisions of that of March 10, 1866. It is provided by the act creating the defendant corporation that its officers shall consist of a board of five trustees,—a treasurer, a clerk (who shall be ex officio assessor), a marshal (who shall be ex officio collector), an attorney, and a surveyor; and with the exception of the first board of trustees, designated by the act itself, it provides that they shall be elected by the qualified electors of the town, and shall hold their office for the term of two years, and until their successors are elected and qualified. It is also provided that the treasurer, clerk, marshal, collector, attorney, and surveyor shall be appointed by the trustees, and shall hold their office for two years, unless sooner removed for misconduct or neglect of official duties. The seventh section of the act makes it the duty of the clerk to keep the books, papers, and documents of the board belonging to the town, to attend all meetings of the board of trustees, and keep a record of all its proceedings, sign all warrants issued by order of the board, and keep an accurate account in a suitable book of all such warrants, their number and date, and assess all taxes levied by the board of trustees. By the eighth section it is declared that the treasurer shall take charge of all moneys of the town, pay all warrants, which shall first be signed by the clerk and countersigned by the president, and keep a correct account of all moneys received and paid out by him, and make

due report thereof once a month to the board. By the eleventh section it is provided that the trustees shall elect one of their number president of the board, and that the president chosen shall act as town recorder. Jurisdiction over certain offenses committed within the corporate limits is committed to him, and he is authorized to receive in such cases the same fees as were then allowed by the laws of the state to justices of the peace. The fifteenth section of the act provides: "The compensation of the board of trustees shall be one dollar per annum. The officers appointed by the board of trustees shall receive for their services such sums as the board may direct."

It will be observed that, while the act creating the defendant corporation provides that the trustees shall appoint a clerk and treasurer, it is silent as to whether such appointments shall be made from their own number or from without the board. No special provision is made therein regarding vacancies in the office of trustee, but the general act for the incorporation of towns of April 19, 1856, the provisions of which, except where inconsistent, are expressly made applicable to the defendant corporation by the act creating it, provides what shall cause a vacancy in the office of trustee; that is to say, removal from the town, absence therefrom for 30 days after election, and, if bond is required, neglect to file such bond within 10 days after election. St. 1856, p. 198. And the act of the legislature of the state of April 22, 1863, regarding offices and officers (Hitt. Gen. Laws, p. 693), declared what should constitute a vacancy in office, among which causes are not enumerated incompatibility of offices or acceptance of another office. This statutory enumeration of causes constituting a vacancy in office has been held by the supreme court of the state to be exclusive (*Rosborough v. Boardman*, 67 Cal. 118, 7 Pac. 261, and cases there cited), and settles the question in relation to the alleged vacancies in the office of trustee of the town of San Buenaventura at the time of the making of the contract in question against the contention of defendants, regardless of any other consideration; for it cannot be doubted that the qualifications prescribed by the state for those who shall be eligible to office under it, or under any of its subordinate subdivisions, or as to what shall constitute a vacancy in any of such offices, are conclusive upon the federal courts.

A more serious question is that raised by the allegations of the answer to the effect that Chateneauf had a direct pecuniary interest with Arnaz, Ustassaugui, and Molleda at the time of the making of the contract in question; and that on October 28, 1872, when an ordinance was adopted by the board of trustees of the town purporting to ratify and confirm the contract and its subsequent assignment to the then existing complainant corporation, McKeeby and Molleda were members of the board of trustees; that their votes were essential to the adoption of the ordinance; that they voted for it, and thus passed it; and that they were, at the same time, holders of stock in the water company. The evidence shows that but three of the five members of the board of trustees—namely, Tico, Chateneauf,

and Escandon—participated on the part of the town in making the contract. It further shows that Chateneauf, at the same time, held for Escandon, who was the president of the board, an equal interest with Arnaz, Ustassauategui, and Molleda in the subject-matter of the contract. Such being the facts, I am of the opinion that the contract was absolutely void, and not merely voidable. The common law, on grounds of public policy, prohibits a trustee from contracting with himself. So does the statute of California. Hitt. Gen. Laws, p. 699; Pol. Code, §§ 920-922. The state statute referred to contains the further provision that every such contract may be avoided by any party interested therein, except the officer or officers making the contract or having an interest in it; and it is contended for the complainant that the effect of this provision of the statute is to remove from such contracts the character of absolute nullity, and make them voidable merely. A similar statute of New York was held by the commission of appeals of that state to be merely declaratory of the common law so far as it goes, in the case entitled *Smith v. City of Albany* (61 N. Y. 444). And such is evidently the view taken by the supreme court of California of the California statute; for in *Wilber v. Lynde*, 49 Cal. 290, where certain trustees of a corporation executed to themselves, on behalf of the corporation, its promissory notes, the supreme court of California held their action contrary to public policy and absolutely void, saying that the case came fully within the doctrine of the preceding case entitled *San Diego v. San Diego & L. A. R. Co.* (44 Cal. 106). In that case two of the three members of the board of trustees of the city of San Diego, assuming to proceed under an act of the legislature of the state authorizing the president and trustees of the city to donate and convey to the railroad company such parcels of the pueblo lands of the city, not exceeding in amount 5,000 acres, as they might deem advisable, and upon such terms and conditions as they might determine, passed a resolution granting to the railroad company 5,000 acres of the city lands. One of the two trustees at whose instance the resolution was passed was at the time a stockholder in and a director of the railroad company. The court said:

"We do not doubt that a majority of the trustees might execute the power, but the question is whether Sherman, who was a stockholder and director of the railroad company, could be one of that majority. When he entered upon the duties of trustee, his relations to the city became those of an agent to his principal, or of a trustee to his *cestui que trust*, and, while holding the office, he could do nothing inconsistent with those relations. This is clear upon principle, and rests upon abundant authority. The general principle is that no man can faithfully serve two masters whose interests are or may be in conflict. The law, therefore, will not permit one who acts in a fiduciary capacity to deal with himself in his individual capacity. 'It may be regarded,' says Parsons, 'as a prevailing principle of the law, that an agent must not put himself during his agency in a position which is adverse to that of his principal; for even if the honesty of the agent is unquestioned, and if his impartiality between his own interest and his principal's might be relied upon, yet the principal has in fact bargained for the exercise of all the skill, ability, and industry of the agent, and he is entitled to demand the exertion of all this in his own favor.' 1 Pars. Cont. 74. This principle has found expression in a large number of cases, involving a great variety of

circumstances. And it applies equally whether one deals with himself, acting as sole trustee, or with a board of trustees of which he is a member, or with the directors of a corporation of whom he is one."

A similar ruling was made by the same court in the more recent case of *Davis v. Mining Co.*, 55 Cal. 359. The principle governing such cases is applicable alike to all officers and trustees of public and private corporations. 1 Dill. Mun. Corp. § 444. To permit a trustee to convey the interests of his *cestui que trust* to another, himself thereby securing an undisclosed interest with that other, would be to sanction a violation of the plainest principles of honesty and fair dealing. Such, according to the evidence in this case, was the transaction surrounding and entering into the contract in question, and it was for that reason void *ab initio*. If it be conceded that a contract so made admitted of ratification, precisely the same reasons which rendered the contract itself a nullity rendered ineffectual the attempted ratification and confirmation of it by the town ordinance of October 28, 1872; for the evidence shows that two of the four trustees voting for that ordinance—namely, McKeeby and Molleda—were, at the time, holders of stock in the complainant water company. That ordinance, by an act of the legislature of the state of California, entitled "An act to re-incorporate and extend the limits of the town of San Buenaventura, state of California, and also to change the name of Canyada street in said town to that of Ventura avenue," approved March 29, 1876 (St. 1875-76, p. 534), was approved and ratified. And prior to that, to wit, on the 29th of March, 1870, a similar act was passed by the legislature ratifying and confirming, in general terms, all ordinances, acts, and proceedings of the board of trustees of the town. While the legislature may cure irregularities, and confirm proceedings which without the confirmation would be void because unauthorized (*Mattingly v. District of Columbia*, 97 U. S. 690), I do not think it can be properly held that the legislature, by the acts referred to, ratified and confirmed a fraud not disclosed to it. The application of the doctrine of ratification always largely depends upon the circumstances of the case. In speaking of the application of the doctrines of ratification and estoppel, it is said in *Morawetz on Private Corporations* (section 631a):

"The application of these doctrines necessarily depends in each case upon all the peculiar circumstances. The equity of the case must be determined. It is necessary to consider the character of the act with which it is sought to charge the corporation, the importance of the act, and the degree of publicity which was given to it. The good faith or bad faith of the parties, and their business relations, are also important considerations."

Whether the ordinance in question violated those provisions of the constitution of the United States declaring that no person shall be deprived of his property without due process of law, and securing every person the equal protection of the laws, need not now be determined; since, under the provisions of the state constitution and state statute pursuant to which it was enacted, its functions had ceased long prior to the final submission of this case, the chief object of which evidently was to procure a judicial determination



of complainant's alleged rights under the contract of January 4, 1869. Inasmuch, however, as the defendant trustees are required to fix the rates annually in the month of February, it is perhaps not out of place to call attention to the case of *Spring Valley Water-works v. City of San Francisco*, 82 Cal. 286, 22 Pac. 910, 1046, in which the supreme court of California, in considering that provision of the state constitution relating to the fixing of water rates, held that the governing body of the municipality has not the right to fix rates arbitrarily, without investigation; and that, while not bound to give notice to a water company of its intention to fix such rates, it is nevertheless in duty bound to make proper efforts to obtain all information necessary to enable it to act intelligently and fairly in fixing the rates, and a failure to do so may defeat its action; that, when the constitution provides for the fixing of rates or compensation, it means reasonable rates and just compensation; and attention also to those decisions of the federal courts in which it is held that the fixing of any such unreasonable rates as amount to a taking of private property without due process of law, or as operate to deprive a party of the equal protection of the laws, are contrary to the provisions of the constitution of the United States, and, in appropriate proceedings, will be declared invalid. *Reagan v. Trust Co.*, 154 U. S. 412, 14 Sup. Ct. 1047; *Ames v. Railway Co.*, 64 Fed. 165, and cases there cited.

From the views above expressed, it results that the bill must be dismissed, at complainant's cost; and it is so ordered.

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CARTER v. THOMPSON et al.

(Circuit Court, D. Montana. November 19, 1894.)

1. PUBLIC LANDS—TOWN-SITE PATENT—OFFER AT AUCTION.

Offer of public lands for sale at auction is not a condition precedent to their being patented for a town site.

2. SAME—ATTACKING PATENT.

A patent for a town site cannot be attacked by one whose rights, if any, in the land, attached after issue of the patent, on the ground that the land was theretofore known to be mineral land, but it can be assailed only in a direct proceeding by the United States.

3. PLACER MINING RIGHTS—QUIETING TITLE.

One having a placer mining right, which can only be acquired in public land, can maintain suit to quiet title, if at all, only as to his limited interest.

Suit by J. A. Carter against J. D. Thompson and others to quiet title to mining property. Heard on demurrers to the bill.

J. A. Carter, for complainant.

Toole & Wallace, Sanders & Sanders, McConnell, Clayberg & Gunn, Massena Bullard, H. G. McIntire, and George B. Foote, for defendants.

KNOWLES, District Judge. In this case complainant commenced an action to quiet title. He sets forth that he located the premises