*25 T.C. 544 (1955)*

The grant of the exclusive right to manufacture, use, and sell a patented article constitutes a sale of the patent rights, with the proceeds taxable as long-term capital gain, provided the invention is a capital asset in the grantor's hands and held for the required period.

**Summary**

The case concerns whether payments received by an inventor for the transfer of patent rights should be taxed as ordinary income or as long-term capital gains. The inventor, Vincent A. Marco, had granted exclusive rights to manufacture, use, and sell his patented indicator lights to two companies, one for the territory west of the Mississippi and another for the territory east of the Mississippi. The Tax Court held that payments received from both companies were proceeds from the sale of patents, taxable as long-term capital gains because the agreements transferred all substantial rights to the patents. The court distinguished this from mere licensing agreements.

**Facts**

Vincent A. Marco, an inventor, developed a "Press to Test" indicator light and obtained patents in 1947. In 1944, he entered into agreements: one with Signal Indicator Corporation granting exclusive rights to manufacture, sell, and distribute the lights east of the Mississippi River for a 5-year term; and another with Searle Aero Industries, Inc. granting similar rights west of the Mississippi River. Both agreements were initially treated as licenses, with payments reported as ordinary income. The Signal agreement was extended and modified in 1950, granting the right to use the devices for the life of the patents. The Searle agreement was cancelled and, in 1949, Marco granted Marco Industries Company the exclusive rights to manufacture, make, use, and sell devices embodying the inventions west of the Mississippi. During 1951, Marco received payments from both Marco Industries and Dial Light Co. (successor to Signal).

**Procedural History**

The Commissioner of Internal Revenue determined a tax deficiency, treating the payments from both companies as ordinary income. Marco contested this, arguing that the payments should be taxed as long-term capital gains. The case was heard by the United States Tax Court.

**Issue(s)**

1. Whether payments received in 1951 from Marco Industries Company should be treated as royalty income or proceeds from the sale of patents, taxable as long-term capital gain.

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2. Whether payments received in 1951 from Dial Light Co. of America, Inc. should be treated as royalty income or proceeds from the sale of patents, taxable as long-term capital gain.

**Holding**

1. Yes, because the agreement with Marco Industries transferred the sole and exclusive right to manufacture, make, use, and sell devices embodying the inventions in a specified geographical area for the life of the patents.

2. Yes, because the 1950 modification of the agreement with Dial Light, granting the right to manufacture, make, use, and sell the devices for the extended term of the patents, effectively converted it into a sale.

**Court's Reasoning**

The Tax Court relied on the precedent established in *Edward C. Myers*, which followed *Waterman v. Mackenzie*. The court emphasized that "the grant of the exclusive right to manufacture, use, and sell a patented article constitutes a sale of the patent rights" when it meets specific conditions. These conditions are met if the invention constitutes a capital asset held for the required period. The court found that Marco's agreements with both companies transferred all substantial rights in the patents within a specified territory, thus constituting sales, not mere licenses. The court distinguished the case from situations where only a license to manufacture or sell was granted but not the right to use.

**Practical Implications**

This case provides guidance on distinguishing between a patent license and a patent sale for tax purposes. Attorneys should carefully draft patent agreements to clearly define the rights granted. To qualify for capital gains treatment, agreements should grant exclusive rights to manufacture, use, and sell the patented invention, either nationwide or within a defined geographic area, for the life of the patent. This case emphasizes the importance of transferring all substantial rights to the patent. Subsequent cases have continued to analyze similar issues, often focusing on whether the inventor has retained significant rights that would be inconsistent with a sale.

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