***Transducer Patents Co. v. Renegotiation Board, 58 T. C. 329 (1972)***

A patent sale, even if structured as an exclusive license, is not subject to renegotiation under the Renegotiation Act of 1951 if it transfers all ownership rights to the patent.

**Summary**

Transducer Patents Co. purchased five patents from Curtiss-Wright and subsequently granted an exclusive license to Statham Instruments, Inc. The Renegotiation Board sought to renegotiate the royalties received by Transducer Patents under the Renegotiation Act of 1951, arguing the arrangement constituted a subcontract. The court held that the exclusive license agreement effectively transferred ownership of the patents to Statham Instruments, thus not falling under the Act's definition of a subcontract. This decision hinged on the legal distinction between a license and an assignment, and the court's interpretation that the transfer of the exclusive rights to make, use, and sell constituted a sale of the patents.

**Facts**

In 1952, Transducer Patents Co. , a partnership, bought five patents from Curtiss-Wright Corp. for $135,000, and simultaneously granted Curtiss-Wright a royalty-free, nonexclusive license back. Later in 1952, Transducer Patents entered into a licensing agreement with Statham Instruments, Inc. , which included options for Statham to obtain exclusive rights. By November 4, 1953, Statham exercised its option for an exclusive license, which the court found to be tantamount to an assignment of the patents. Statham Instruments paid royalties to Transducer Patents based on sales of devices covered by these patents, which the Renegotiation Board later challenged as excessive profits subject to renegotiation.

**Procedural History**

The Renegotiation Board determined that Transducer Patents had received excessive profits from royalties during fiscal years ending February 1957 through 1967 and sought to renegotiate these profits. Transducer Patents contested this before the U. S. Tax Court, arguing that the transaction with Statham Instruments was a sale of the patents, not a subcontract subject to renegotiation. The Tax Court, in its May 18, 1972 decision, ruled in favor of Transducer Patents, holding that the transaction was a sale and not subject to the Renegotiation Act.

**Issue(s)**

1. Whether the exclusive license agreement between Transducer Patents Co. and Statham Instruments, Inc. , constituted an assignment of the patents under the principles of Waterman v. Mackenzie?
2. Whether the assignment of the patents to Statham Instruments constituted a

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“contract or arrangement covering the right to use” the patents within the meaning of section 103(g)(2) of the Renegotiation Act of 1951?

## Holding

1. Yes, because the agreement granted Statham Instruments exclusive rights to make, use, and sell under the patents, effectively transferring ownership of the patents to Statham Instruments.
2. No, because the transaction was deemed a sale of the patents, not a subcontract under the Renegotiation Act of 1951, thus the profits received by Transducer Patents from Statham Instruments were not subject to renegotiation.

## Court’s Reasoning

The court applied the legal principles from Waterman v. Mackenzie, which stated that the transfer of exclusive rights to make, use, and sell under a patent constitutes an assignment of the patent itself. Despite the agreement being titled an “Exclusive License Agreement,” the court found it effectively transferred ownership to Statham Instruments, as it included the right to make, use, and sell the patented inventions. The court emphasized that the nonexclusive license previously granted to Curtiss-Wright did not affect the assignment to Statham Instruments, as it was royalty-free and did not represent a retained interest by Transducer Patents. The court also rejected the Renegotiation Board’s argument that retaining legal title or a right to recapture upon default precluded a sale, citing Littlefield v. Perry, which held that such provisions do not prevent the transfer of title. The court concluded that since the transaction was a sale, it did not fall under the Renegotiation Act’s definition of a subcontract.

## Practical Implications

This decision clarifies that a patent sale structured as an exclusive license can avoid renegotiation under the Renegotiation Act if it effectively transfers ownership rights. Legal practitioners should ensure that exclusive license agreements are drafted to reflect a clear transfer of ownership to prevent their clients’ profits from being renegotiated. Businesses dealing with patents need to structure their transactions carefully, understanding that even if labeled as a license, the substance of the agreement can determine its tax and regulatory treatment. This ruling has been influential in later cases involving the interpretation of patent assignments and the application of the Renegotiation Act, such as Bell Intercontinental Corp. v. United States, where similar principles were applied.

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