

6 Key Takeaways | Patent and Technology Licensing: Strategies for Effective Drafting and Negotiation

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Kilpatrick's [Sonia Baldia](#) recently presented on “**Patent and Technology Licensing: Strategies for Effective Drafting and Negotiation**” at the 21st annual KTIPS (Kilpatrick Townsend Intellectual Property Seminar).

As innovation cycles accelerate and cross-border collaboration becomes the norm, technology licensing has become one of the most commercially impactful tools in a company's IP strategy. Yet too often, license agreements are drafted with boilerplate structures or disconnected from the business context. The most effective licenses are those that align legal structure with business realities and anticipate how rights will be used and enforced. Below are six practical insights to help legal and business teams craft licensing agreements that are both commercially effective and legally sound.

Sonia's key takeaways from the presentation include:

1. Understand the Key Distinction Between a Patent License and a Covenant Not to Sue.

While both patent licenses and covenants not to sue permit certain uses of patented technology, they are not legally equivalent — and the differences carry important consequences. A patent license conveys an affirmative grant of rights under 35 U.S.C. § 261 and is generally treated as a property interest. Depending on its scope, it may support standing to enforce, be recordable with the USPTO or foreign registries, and be assignable or sublicensable. A covenant not to sue, by contrast, is a contractual promise not to assert patent claims against certain activities. It does not transfer a property interest, is not recordable, and typically does not confer standing to enforce — even in the hands of exclusive users — because it lacks the “exclusionary rights” that courts typically require for enforcement actions. From a drafting perspective, if the goal is to allow limited use of patented technology without conveying broader enforceable rights, a narrowly framed covenant may suffice. But where downstream enforcement, assignability, indemnity obligations, or declaratory judgment standing are important, a formal license is the better, and often necessary, tool.

2. Align License Structure and Terms with Business Purpose.

A well-structured license should be built around the commercial objectives of the parties — whether that's bringing a product to market, enabling manufacturing partnerships, resolving IP disputes, or generating recurring revenue. The agreement's legal architecture should mirror how the intellectual property will actually be used, by whom, and in what market context. Core terms like exclusivity, sublicensing rights, field of use, and territorial scope should be driven by the deal's strategic intent — not simply dictated by the type of IP involved.

Ultimately, a license is more than just a grant of rights; it is a business structuring instrument. When drafted thoughtfully, it aligns legal rights with commercial realities, supports scalability, and reduces friction as the relationship evolves.

3. “Grant” Language Must Be Precise and Present-Tense.

Precision in license grant language is merely stylistic; it is legally determinative. Language such as “agrees to grant” or “will grant” does not convey a present license. Courts have consistently held that such phrasing creates only a promise of future action, which can undermine enforceability and standing. The grant clause must use operative, present tense language — such as “hereby grants” — to be effective. This issue is particularly important in cross-border deals, where license language may be translated or localized and where imprecision can lead to conflicting interpretations under local law.

4. Avoid Brulotte Traps: Limit Patent Royalties to the Patent Term.

U.S. patent law prohibits royalty payments for post-expiration use of a patent — even if both parties agree otherwise. This principle, established in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), was reaffirmed in *Kimble v. Marvel Entertainment, LLC*, 576 U.S. 446 (2015). The rule is strict: license agreements cannot extract royalties tied to expired patent rights. This has significant drafting implications. If the license covers both patent and non-patent IP (e.g., trade secrets, know-how, or brand value), royalty terms must be clearly allocated to avoid “post-expiration patent misuse.” Drafters should carefully structure royalty schedules and define the duration of obligations in ways that respect the legal lifespan of the patent. Where payments extend beyond expiry, documentation must clarify the commercial rationale and identify the non-patent value being compensated.

5. Cross-Border Licenses Must Address Enforceability and Regulatory Compliance Risk.

Licensing across borders involves not only contractual challenges but also heightened regulatory risk. In some jurisdictions, enforceability requires formalities, for example, licenses must be recorded in Indonesia to bind third parties, while in China, recordation facilitates enforcement and customs protection even if not mandatory. Cross-border licensing may also trigger export control laws (like EAR or ITAR for sensitive technologies), sanctions compliance (e.g., OFAC restrictions on payments), and anti-bribery rules (such as the FCPA when foreign officials are involved). These risks increase when rights extend to use, manufacture, or distribution abroad. Given these layers, cross-border licenses should be structured with input from IP, tax, and compliance counsel early in the process to ensure both enforceability and regulatory hygiene.

6. Use Interim Agreements Strategically to Preserve Leverage and Momentum.

In many technology deals, the pace of business often outstrips the time needed to finalize a comprehensive license. In these situations, interim agreements—such as term sheets, LOIs, or pilot-stage arrangements—can be critical tools to align expectations, protect interim rights, and manage legal risk while negotiations continue. Though often styled as “non-binding,” these agreements frequently include binding terms on confidentiality, exclusivity, IP ownership of interim deliverables, and negotiation timelines. Poorly drafted interim documents can create uncertainty about whether a deal was struck, what rules apply to interim use, or who owns the interim deliverables. Lawyers should assess early whether an interim agreement is needed, especially when early-stage tech integration, pilot testing, or data sharing is anticipated. Draft with precision: clearly separate binding and non-binding provisions, define permitted interim uses, and avoid language that implies a full license. When used thoughtfully, interim agreements can help preserve momentum without compromising legal clarity or strategic leverage.

Technology licensing sits at the intersection of innovation, value creation, and legal risk. By grounding agreements in business purpose, drafting with legal precision, and staying alert to jurisdictional and regulatory complexity, lawyers can help clients unlock the full potential of their IP assets — while avoiding the traps and downstream risks that make even sophisticated deals unravel.

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