



Advanced Media
and Technology

LAW BLOG



Pitfalls of Failing to Acquire Required Consents When Outsourcing-Xantel and Merck Settle Trade Secrets Dispute

March 17, 2011 2:11 PM | *Posted by Akiba Stern* | [Print this page](#)

Xantel, Inc. owns a manufacturing resource planning software system called AMAPS. Xantel licensed AMAPS to Schering-Plough, which later merged with Merck. The 1990 agreement contained a confidentiality provision prohibiting Schering-Plough from disclosing the software to any third party and prohibited the transfer or assignment of the license without Xantel's consent.

In May 2010, Xantel filed suit against Merck, claiming breach of the confidentiality and non-assignment provisions. According to the [complaint](#), Schering-Plough employees maintained the software system for several years, which was allowed by the agreement. But, in connection with an outsourcing to IBM, Schering-Plough terminated the employees who had been maintaining AMAPS, and those employees were hired by IBM who then began servicing the system. Xantel claimed that the system was then exposed to IBM who is a competitor.

Xantel advised Schering-Plough that maintenance of the system by IBM employees was a violation of the 1990 agreement and Xantel subsequently gave notice to Schering-Plough that the agreement was terminated and demanded the return of the system pursuant to the agreement. After Merck merged with Schering-Plough, Xantel filed suit against Merck for breach of contract and misappropriation of trade secrets. Xantel claimed that Schering-Plough violated the confidentiality provision when it allowed IBM to service the system and that Merck had not obtained consent from Xantel to use the system after it merged with Schering-Plough.

The parties recently settled out of court.

Lessons Learned / Practice Tips

The facts of this case highlight the importance of the following:

- Early due diligence for both outsourcing and M&A transactions to timely obtain the consents required for continuing use of licensed software; and
- Including appropriate sublicensing, assignment and outsourcing rights in all software and other license agreements. Most vendor forms prohibit



Advanced Media
and Technology

LAW BLOG



sublicenses and assignments, even in the event of a merger. These prohibitions generally apply to outsourcings.

This publication may constitute "Attorney Advertising" under the New York Rules of Professional Conduct and under the law of other jurisdictions.

© 2011 Loeb & Loeb LLP. All rights reserved.