



## message from partner in charge

I am pleased to announce that the Orange County office is growing. We've added three new attorneys to Pepper's Commercial Litigation Practice Group. Michael Meeks, Jim Godes and Joe Preis are welcome additions to the firm. Learn more about our latest additions on page 4.

In addition to welcoming our newest litigators, this edition of the *Orange County Update* has some valuable information on the maintenance and support agreement, trademark issues and private equity.

Each of these articles is available in full on our Web site, [www.pepperlaw.com](http://www.pepperlaw.com). I would also like to encourage you to visit the Pepper Pod Center, which hosts a variety of podcasts, including information on dividend recaps, mezzanine funds, stock option backdating and much more.

Enjoy!

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## Decoding the Maintenance and Support Agreement

*This article was published in the Journal of the Healthcare Information and Management Systems Society (HIMSS) and is excerpted here with permission. To read the full article, visit [http://www.pepperlaw.com/pepper/publications\\_article.cfm?rid=965.0](http://www.pepperlaw.com/pepper/publications_article.cfm?rid=965.0).*

The dirty little secret of software licensing agreements is that the amount spent on the actual license often is dwarfed by the amount spent on installation, maintenance, support and other professional services over the life of the agreement. Those monthly bills start piling up, and before you know it, you have burnt through six figures and counting, and you don't even have a live system. Most of the operational issues that come up under license agreements are related to services, but little time is spent negotiating or even thinking through provisions relating to services.

### Define the Scope of Services, Responsibilities and Roles

The key to avoiding problems with the services provisions of licensing agreements is to make sure that the agreement clearly establishes the scope of services to be provided, and precisely who is responsible for doing what. Details regarding what services are included in maintenance and support may be on a Web site detailing support policies and bronze, silver and gold support programs. These important web documents need to be understood and represented in the contract. Having maintenance policies posted on a Web site makes it all too easy for the vendor to reduce maintenance and support in a nanosecond by unilaterally changing the Web site. Consider attaching a screen shot of the web support documents to the contract.

### Maintenance Basics

Generally, maintenance includes responding to questions via a call center, updates, error corrections, and new releases or versions. The contract should list the times of telephone support. In the healthcare setting, where hospitals don't close, you should receive 24/7 support for

all critical applications. If the vendor is not staffing a call center 24/7, ask for beeper support.

The error corrections or bug fixes provided under a maintenance plan are essentially a continuation of the warranty that the software will operate in accordance with its documentation. Releases are improvements to existing features and functions, and the release number is generally the number to the right of the decimal point (Release 3.5). Versions are major enhancements or new features and functions, and the version number usually is listed to the left of the decimal point. (Version 3.0).

### Exclusions

Maintenance fees are for the usual wear and tear on the software and the environment in which it operates – beyond that, vendors use exclusions so that they are not obligated to fix everything for the cost of basic monthly maintenance fees.

Maintenance exclusions highlight a myriad of technological concerns that may arise if, for example, the software is used on hardware not prescribed by the vendors, the software is not used in accordance with documentation, or the software is repaired or modified by someone other than vendor. Violating these exclusions provides a way for the vendor to charge if repairs take more time or money than normal.

### Service Levels and Response to and Repair of Critical Issues

Service levels, especially in a hosted environment, should include uptime/availability. The devil is in the details in these warranties. You should know how much downtime is

scheduled each day and excluded from the calculation. You should specify a credit or other remedy (such as increased hardware capacity) as a fix for failure to meet the defined levels.

### Source Code

If all else fails, you may want the safety net of having the source code or human readable code (vs. object or machine-readable code) in escrow. Generally, the triggers for the release of such source code are vendor bankruptcy, ceasing to do business in the ordinary course, and sunset of support for the software.

### Conclusion

Maintenance is an inexact science. Post-live, the software is largely out of the vendor's control yet it must be cared for by the vendor. From the customer's perspective, maintenance is expensive and users feel at times like the vendor is "nickel and dimming" customers to feed the cash cow. From the vendor's perspective, the tipping point may be too many minor calls to the help desk, running the software in extraordinary conditions, or requiring more configuration or customization than normal. The way to a successful maintenance relationship is to set expectations, train users on the system and educate the vendor on the customer's environment. This will make for the most cost-effective way of obtaining maintenance/support.

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## **Peppercast: Information Management Plan Essential to Handling E-discovery Issues**

On December 1, 2006, the amendments to the Federal Rules of Civil Procedure addressing e-discovery became effective.

Listen to this short podcast with Sharon Klein, a partner in the Orange County office of Pepper Hamilton, as she explains the importance of organizations having an Information Management Plan to handle e-discovery issues now that these changes are effective.

Listen today by visiting the Commercial Litigation section of [www.pepperpodcasts.com](http://www.pepperpodcasts.com)

## Marketing v. Legal: The Battle Over Trademarks

*This article was published in Restaurant Report Magazine and is excerpted here with permission. To read the full article, visit [http://restaurantreport.com/departments/biz\\_legal\\_trademarks.html](http://restaurantreport.com/departments/biz_legal_trademarks.html).*

The most unappreciated friction occurring within the ranks of foodservice enterprises is between Marketing and Legal over the cost of legally protecting new advertising slogans. Marketing views Legal as being unnecessarily conservative and equally liberal in spending Marketing's funds. Legal typically views Marketing as slow to seek counsel and then unrealistic in its expectations of both costs and risks. The savvy owner and/or corporate leader will recognize this friction and find a way to turn a potentially costly and disruptive team disharmony into an energizing and efficient team synergy.

The last thing a company wants from its ads is a resultant cease and desist letter and/or lawsuit that shortens the life of pre-purchased print and media times, or worse, costs the company money to defend and/or settle a dispute with parties claiming infringement of their purported rights.

While it may seem obvious, it is often the case that Marketing does not confer with Legal about the review of advertising materials prior to public dissemination. This is the recipe for disaster. Any and all materials that are to be sent for public consumption should be pre-screened by competent legal counsel. Legal personnel, however, must not be so conservative and protectionist as to generate an automatic veto.

### Basic Trademark Issues

There are two fundamental questions that must be asked and answered for any creative materials: (1) Are these materials safe to use without infringing another entity's intellectual property, and (2) If safe to use, is it costworthy to pursue formal trademark protection. To answer the first question, a trademark search must be crafted and conducted. Properly run searches at the federal, state and common law levels can provide a reliable summary of who else might be using a slogan, phrase, name, mark, etc. which is the same or confusingly similar to what your team is preparing to use. To answer the second question, an analysis must be conducted as to both the strength of the mark soon to be used and the company's ultimate branding strategy for this mark into the future.

*Sometimes a mark that is initially perceived as "great" by Marketing and deemed both "safe" and "strong" by Legal, can be "costly" to the company.*

Sometimes a mark that is initially perceived as "great" by Marketing and deemed both "safe" and "strong" by Legal, can be "costly" to the company. However, when the branding strategy of a particular mark is analyzed by both a Marketing person educated in the basics of trademark law and a Legal person who understands the goals of the advertising campaign for that particular mark, they can combine their knowledge and, using tangible criteria, make an educated analysis and decision as to how (or whether) to spend money formally protecting the mark. The result is consistent creation and dissemination of public marketing materials that not only holds the consumer's attention, but does so in a way that maximizes cost-effectiveness and minimizes legal risks. Isn't that what we're after?

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## Private Equity Insight: Dividend Recapitalizations

Pepper Hamilton and PricewaterhouseCoopers are releasing a new study that presents findings from a survey of private equity firms. The study is entitled “Private Equity Insight: Dividend Recapitalizations” and was conducted in association with mergermarket, a research and publishing company.

The report is centered on a survey conducted in late 2006. mergermarket interviewed 75 senior private equity practitioners with a working knowledge of dividend recapitalization processes. Some key findings include:

- 97 percent of respondents expect to recapitalize portfolio companies in 2007
- the majority of dividend recaps will involve middle market companies
- most firms are comfortable with post-dividend recap leverage ratios of 3.5 or 4 to 1.

We hope you find **Private Equity Insight: Dividend Recapitalizations** both interesting and informative.

A complimentary copy of the entire report, including forewords and commentary by Pepper Hamilton and PricewaterhouseCoopers, can be requested by contacting Brian Dolan (dolanb@pepperlaw.com).

## Pepper Hamilton LLP

Attorneys at Law

The material in this publication is based on laws, court decisions, administrative rulings and congressional materials, and should not be construed as legal advice or legal opinions on specific facts.

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## Orange County Office Adds New Litigation Group

Pepper announced that it has expanded its Orange County, California, office and its commercial litigation group with the addition of **Michael L. Meeks**, **James N. Godes** and **Joseph M. Preis**. Mr. Meeks focuses his practice on commercial litigation, intellectual property litigation, business dissolution disputes and insolvency litigation. Mr. Godes and Mr. Preis focus their practices on general commercial litigation, health care litigation, trademark and intellectual property litigation, and employment law.

Michael’s practice includes commercial litigation, manufacturer/distributor litigation, copyright, trademark, trade secret, unfair competition and false advertising litigation, products liability claims, and insolvency litigation involving preferential and fraudulent transfers. His clients have included national manufacturers and retailers, Internet retailers and health maintenance organizations, as well as receivers, assignees for the benefit of creditors, and bankruptcy trustees.

Jim focuses his practice on business, employment and health care litigation in state and federal courts. He represents international, national and local clients of all sizes in a variety of industries, including sports, health care, retail and food service. His work also includes cases and projects involving non-competition, non-solicitation and non-disclosure agreements, theft and misuse of trade secrets and other proprietary information, executive compensation arrangements and defamation. In addition, he counsels clients on employment matters and serves as outside general counsel for companies.

Joe concentrates his practice in complex business litigation, employment litigation, and intellectual property and Internet litigation, and he also provides business advisory services. His clients include aerospace companies, computer software companies, venture capital firms and companies engaged in biofuel production and research.

Please join us in welcoming Michael, Jim and Joe to Pepper.