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Cloud Computing, Part III *by Robert E. Braun*

In past issues of the JMBM Corporate Law Newsletter, we discussed some of the benefits and challenges of cloud computing. As discussed in those articles, while there are a number of advantages which make cloud computing attractive, there are also a number of business and strategic challenges of cloud computing which need to be considered. These benefits and concerns, while not unique to cloud computing, reflect the qualities of accessing software and data through the Internet. This article briefly reviews some of the legal considerations and resolutions that clients can use to address those challenges.

What is Cloud Computing?

To review, "cloud computing" commonly refers to delivering computing services – software, storage capacity or other products and services – over the Internet. We use these products and services regularly, including off-site data storage (such as Web-based automatic file backup), online banking, Gmail, online search engines and online photo albums. Most of us use the cloud every day, by accessing search

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Back of the Agreement - Boilerplate Provisions

by Robert E. Braun and Michael A. Gold

The term "boilerplate" dates back to the 1890s, when printing plates of text for advertisements or syndicated columns were cast or stamped in steel ready for the printing press and distributed to newspapers around the United States. They were called boilerplates because of their resemblance to the thick, tough steel sheets used to build steam boilers.

Eventually, the term was adopted in legal transactions to describe contract clauses that are considered "standard language." These terms are often dismissed as unimportant to the rest of the agreement or so routine that they should be included in the contract without thought to their consequences. Boilerplate, however, should be considered with the same seriousness as any other part of the agreement. This column begins a regular series analyzing some of those "standard" provisions.

Further Assurances

Most commercial agreements include a paragraph reading something like this:

> **Further Assurances.** Each of the parties hereto shall execute and deliver any and all additional papers, documents and other assurances, and shall do any and all acts and things reasonably necessary in connection with the performance of their obligations hereunder to carry out the intent of the parties hereto.

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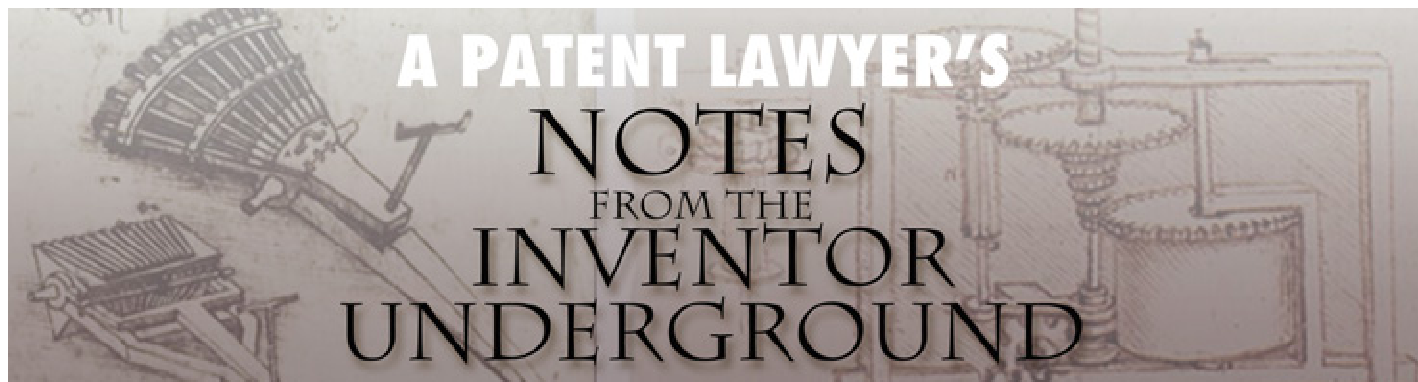
Patent Owners: Do Not Forget Taxes

by Stanley M. Gibson



What patent holders and inventors need to know before licensing, acquiring, or settling a lawsuit involving intellectual property

There are complex tax issues surrounding the licensing of intellectual property and the settlement of lawsuits regarding intellectual property. Therefore, the tax issues impacting a particular situation should be thoroughly analyzed before a patent owner goes too far down the road in licensing or settling a dispute over intellectual property. There are even more specialized rules for inventors of patents who may be able to achieve capital gains treatment for the sale of their patents, provided that the proper guidelines are followed.

The main purpose of this note is to advise that inventors and patent holders should consult their tax professionals early in the process and certainly before a license or a settlement agreement is consummated. In particular, for inventors, section 1235 of the internal revenue code should be analyzed to determine if a patent sale can be structured in a way that provides capital gains tax treatment. Section 1235, pertaining to the sale or exchange of patents, provides:

General. A transfer (other than by gift, inheritance, or devise) of property consisting of all substantial rights to a patent, or an undivided interest therein which includes a part of all such rights, by any holder shall be considered the sale or exchange of a capital asset held for more than 1 year, regardless of whether or not payments in consideration of such transfer are—

1. payable periodically over a period generally coterminous with the transferee's use of the patent, or

2. contingent on the productivity, use, or disposition of the property transferred.

"Holder" defined. For purposes of this section, the term "holder" means—

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The purpose of this clause is to ensure that the parties will cooperate to accomplish whatever routine matters are necessary to fulfill the goals of the agreement. While one would hope and expect that the parties will cooperate (for example, by providing additional signed copies of documents or certifying to government authorities that agreements are authentic), including a further assurance clause that is broad and vague could lead to unreasonable requests for further assurances, disputes over whether the language covers such a request and debates about who pays for actions taken to provide "further assurances."

The parties to an agreement should consider including a further assurances clause, but also consider whether it should be qualified in some way. For example, the parties should try to foresee the additional agreements that are likely to be necessary and specifically provide for them. The general further assurances clause also might be qualified to provide that a party should not be required to incur expense or incur expenses in excess of a particular dollar amount or assume any liability as a result of the clause. The clause can expressly exclude certain actions as outside the scope of a further assurances request.

The bottom line with the further assurances clause is that, like all boilerplate, has important legal consequences and can spring some nasty surprises on contracting parties when they haven't given thought to what the clause can require parties to do as part of their contract obligations.■

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