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CLOUD COMPUTING - A HOT TOPIC IN 2010 WHEN COST REDUCTION IS ON EVERYONE'S MIND

What is Cloud Computing?

Cloud computing, is an emerging computing technology that allows clients to access, via the Internet, a wide array of data and software stored remotely on central servers owned and operated by a third party provider; all on a pay as you go basis. The beauty of this arrangement is that companies can access a wide range of functional capabilities without a substantial up front investment in hardware, software or a large highly skilled IT staff to manage the assets.

In essence cloud computing customers do not own the physical infrastructure and generally need only a monitor, keyboard and mouse to access, via the internet, the data and software housed on the third party provider's servers. Clients typically pay either a fee based upon the number of users they have accessing the servers, or by the services they actually use. This allows clients to leverage web based infrastructure in an on-demand way to suit their dynamically changing IT needs. Also, for clients who do not want to become technology experts, the complexity and upkeep of both the software and hardware is literally 'in the clouds' and taken care of by professionals somewhere else.

Why is Cloud Computing a Hot Topic?

As companies cut capital expenditures, a pay as you go model which does not require a substantial up front investment in hardware, software and IT staff makes sense; and the market is recognizing this reality. Worldwide cloud computing services revenue topped \$56.3 billion USD in 2009, and is expected to grow to \$150 billion by 2013, with a significant portion of the revenue deriving from cloud-based advertising. www.mitechnews.com/articles.asp?id=10229. Cloud computing not only allows a company to reduce its costs by outsourcing an administrative function (IT capability), but allows it to focus on its core competencies during these challenging economic times.

Benefits of Cloud Computing

Cloud computing allows clients to substantially extend their existing IT capabilities

Attorney Spotlight



Michele M. Hedges

Some of Michele's specialties are: Commercial and Technology Agreements, Domestic and International Supply Chain Matters and Marketing Communications. [Click Here](#) to read more about Michele

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by providing access to state of the art equipment, software, and functionality without the need for maintenance, upgrades or substantial IT resource allocation.

Cloud computing generally eliminates the need for companies to build their own network operations center, to license their own software applications and operating systems, to install applications, and to store, maintain, upgrade and secure their data themselves. Thus, companies can reduce upfront capital expenditures for software, hardware such as servers, network infrastructure equipment, and smart computers (i.e. personal computers and laptops), as well as operational costs for large highly skilled IT staff needed to implement and maintain computing solutions. This lowers barriers to entry into new markets, or the opportunity to innovate with new software applications that may require intensive computing tasks, since clients pay as they use such services.

Since applications and data are stored on centralized servers, they can be accessed by users anywhere from any machine with a web browser; this gives users much greater mobility. Clients can also rapidly change the services they use by adding new users, changing software programs, or increasing storage capacity by simply making a request to the provider. Another advantage is how rapidly clients can add new users or services.

Issues in Cloud Computing

Issues to watch out for in Cloud Computing contracts include:

- Fee increases where the only recourse is a right to terminate with 30 days notice.
- Hidden costs for items such as upgrades, bug fixes or an increase in storage capacity.
- Contracts that allow provider to terminate without cause with little to no notice.
- Contracts where provider has no obligation to back up your data, or restore your data and provide it on a storage media to you, upon expiration or termination of the contract.
- Contracts that contain 'excusable downtime' provisions, and caps on credits for failing to meet defined service levels.
- Contracts providing for bare bones data security.
- Contract provisions where provider can suspend services for non-payment.
- Contracts containing excess use provisions that permit provider to increase the limits of your services and costs, or terminate your service.

Of course a great risk in an evolving market is the financial solvency of your provider. You should ensure that your contract has a change of control provision requiring advance written notice to you if your provider is sold or goes out of business so you have sufficient time to import your data back in-house or to another provider to minimize disruption to your business.

While cloud computing offers significant benefits, there are business and legal issues associated with cloud computing that must be carefully evaluated to avoid the traps.

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