

Dealing with a Breach

Mock Crisis: Putting the Response Plan to the Test

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Child's Toy and Clothing Co.

- Child's Toy and Clothing Co. ("CTC") is a Nasdaq-listed company specializing in the sale of children's clothing and toys.
- It has brick-and-mortar stores in 28 states and it sells its products online to customers nationwide and in Canada and Mexico.
- CTC has approximately 24 million online sales per year from 8 million different customers.
- CTC has a market capitalization of \$2.5 billion, up from \$1 billion in 2012, and sales of \$1.4 billion. CTC's sales are split equally between its brick-and-mortar stores and its online business, but the online business is far more lucrative—accounting for 75% of CTC's profits.

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- CTC collects and stores information from customers when they place online orders, such as name, address and payment card information.
- In addition, the CTC website includes a “Kids’ Zone” where, with properly authenticated parental consent, children can create online profiles and play games. Information gathered from the profiles and games is used internally for targeted advertising to the children and their parents.
- CTC’s privacy policy clearly discloses this use and states that “CTC uses commercially reasonable physical, managerial and technical safeguards to preserve the integrity and security of its customers’ and users’ personal information.”

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- CTC's IT systems were developed over time. On several occasions when CTC acquired a smaller competitor, the companies' IT systems were merged.
- CTC's IT team consists of a few internal personnel and is supported by several outside vendors. CTC also has a Chief Information Security Officer ("CISO") who was hired in early 2013.
- CTC has a cyber incident response plan, which was last reviewed with senior management and the board of directors in November 2014.
- CTC subscribes to cyberinsurance.

Notice of Potential Data Breach

- On Friday, June 12th, CTC is informed by its credit card processor that the processor has detected a pattern of fraudulent payment card activity following customer purchases on CTC's online store.

What are the first steps CTC should take and how should CTC begin assessing the potential breach?



Confirmation of Data Breach

- CTC investigates and, by Thursday, June 18th, it determines that hackers gained unauthorized access to its systems in late April and began exfiltrating data in late May. It appears the access was initially obtained using the stolen credentials of CTC's customer data analytics vendor. Some sensitive customer data has certainly been compromised, but the extent of the breach remains unclear.

What are the next steps? What information does CTC need?



The Compromised Data

- On Saturday, June 20th, CTC is fairly confident that between 250,000 and 3 million customer records have been compromised, including payment card information, and that at least some personal information gathered from children in the “Kids’ Zone” has been exfiltrated. CTC also learns that a well-respected cybersecurity blogger has learned of the breach and it is expected that a story will be released on June 22nd.

What are the primary public relations and data breach notification issues CTC must consider?



Stock Drop and SEC Disclosures

- CTC issues a press release regarding the breach on the evening of Sunday, June 21st. On Monday, the stock price reacts negatively to the announcement and trades down from \$33 per share on June 19th to approximately \$27 per share on June 22nd.



Stock Drop and SEC Disclosures

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- It is now July 2nd and CTC's stock continues to trade in the \$26-28 range. The company has determined that online sales sharply declined at the end of June and that the company's quarterly earnings will be 5-10% below the consensus estimate of analysts. CTC's next scheduled earnings call and 10-Q filing are on July 15th and 31st, respectively.

What steps should CTC consider taking?



Liability Exposure

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- As the dust begins to settle, CTC is assessing its regulatory and civil liability exposure as a result of the breach.

What are some of the issues it must consider?



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