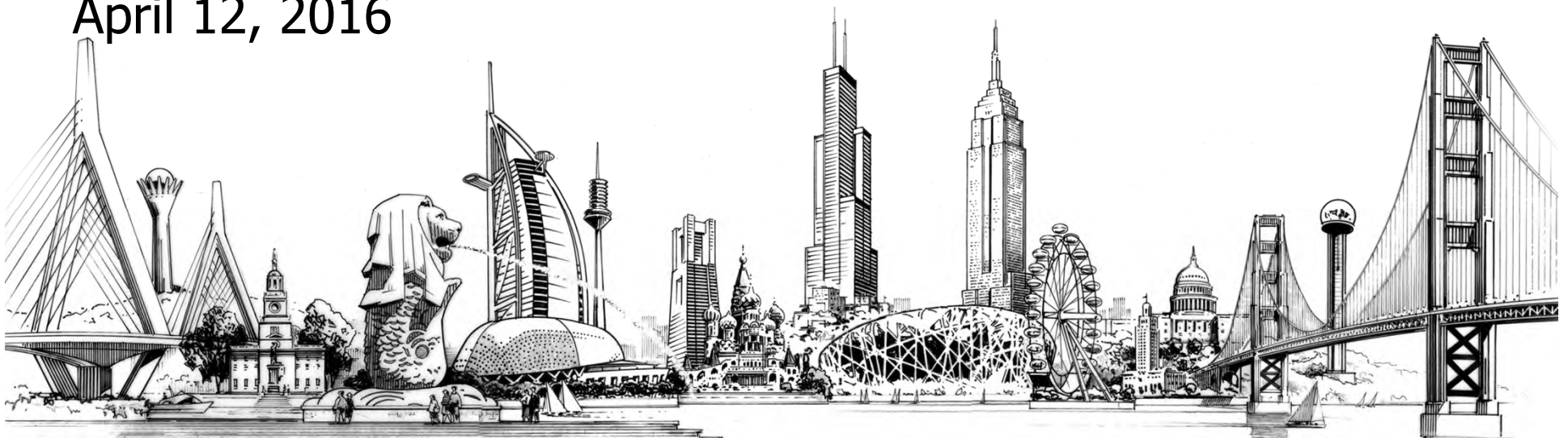


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**PRIVACY AND
CYBERSECURITY
ISSUES IN M&A
TRANSACTIONS**

Don Shelkey and Ezra Church

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Overview

- Introduction
- Why should I care?
- Five Key Legal Requirements
 1. Sector-Specific laws
 2. Privacy Policies
 3. Data Security Requirements
 4. Breach Notification Laws
 5. Cross-Border Restrictions
- Implementing Privacy and Security in Deals
 - Diligence
 - Reps and Warranties
 - TSAs

Why should I care?

- If a target company cannot collect and deploy data consistent with data privacy laws, the business model on which the company is premised may be flawed
- Failure of target company to meet its data privacy and security obligations can be a major risk for acquiring company
- Transfer and sharing of data in connection with diligence and after the transaction may in itself violate data privacy laws

Good News / Bad News

- **Good News** – there is no all-encompassing data privacy or cybersecurity statute in the U.S.
- **Bad News** – there is no all encompassing data privacy cybersecurity statute in the U.S.:

Attorney General Enforcement
FTC Act
FCRA
CAN-SPAM
COPPA
Breach Notification Laws
Data Disposal Laws
FERPA
Gramm-Leach-Bliley
MA Data Security Laws
Red Flags Rule
FACTA
EU “safe harbor” rules
Consumer Class Actions
PCI and DSS Credit Card Rules
Document Retention
Requirements
HIPAA

CA Online Privacy Act
Stored Communications Act / ECPA
Do Not Call Lists
Telephone Consumer Protection Act
Video Privacy Protection Act
Wire Tapping liability
Invasion of Privacy Torts
Data Encryption Laws
E-Sign
Computer Fraud and Abuse Act
Communications Decency Act
Spyware Laws
RFID Statutes
FDCPA
Driver’s Privacy Act
Social Security Number Laws
Regulation Z
Others State Laws

1. Sector Specific Laws

Health	Financial	Kids
<ul style="list-style-type: none">• Health Insurance Portability & Accountability Act (HIPAA).	<ul style="list-style-type: none">• Gramm-Leach-Bliley Act• Fair Credit Reporting Act (FCRA)• State Laws	<ul style="list-style-type: none">• Federal Educational Rights & Privacy Act (FERPA)• Children's Online Privacy Protection Act (COPPA)• State Laws

- Consumer Marketing! Telephone Consumer Protection Act (TCPA), CAN-SPAM, and Do Not Call regs

2. Privacy Policies

- FTC and CA Online Privacy Act
- Self-imposed regulation
- Basic principles
 - Notice
 - Access and Control
- Must notify regarding material, retroactive changes
- Language to look for:
 - “Transfer of assets” language
 - Restrictions on sharing
 - Promises about security
- Look at the language for all entities involved; website and mobile
- Other public statements about privacy and security?

3. Data Security Requirements

- Sector-specific laws may apply
- Contracts may require certain security standards
- MA Security Regulations
 - Have a written information security plan
 - Additional administrative discipline
 - Social security numbers
 - Encryption
 - Training

4. Breach Notification Laws

- 47 States and D.C.
- Based on the individual's residence
- Triggering elements vary
- Encryption / lack of use exception – sometimes
- Issue of “who's obligation”?
- Timing of notice– “as soon as practicable,” but need information to notify
- Vendor management

5. Cross Border Data Transfers

- **Safe Harbor** – traditionally considered the best option for transfers limited to the U.S.
 - BUT, European Court of Justice recently held that the safe harbor regime is invalid
 - New **Privacy Shield** being negotiated
- **Data transfer agreements** – good, but must have right language and foreign counterparty who retains liability.
- **Binding Corporate Rules** – hard to implement at multi-national level; can be good for isolated transfers. One European entity retains liability.
- **Consent of Data Subjects** – really only works at an individual level; can be revoked at will; not good for database or large-scale transfers. Can be good if just a few European employees.
- **Necessary for Contract Performance** – very limited to “necessary”; e.g. address for shipping.

M&A - Reps and Warranties

- Privacy and Security related reps and warranties are most often included in the “Intellectual Property” section.
- Three common Privacy related reps:
 - *Compliance.* Seller is in material compliance with all applicable Laws, as well as its own rules, policies and procedures, relating to privacy, data protection, and the collection, use, storage and disposal of personal information collected, used, or held for use by Sellers in the conduct of the Business.
 - *Claims.* No claim, action or proceeding has been asserted in writing or, to the Knowledge of Seller, threatened in connection with the operation of the Business alleging a violation of any Person’s rights of publicity or privacy or personal information or data rights.
 - *Security.* Seller has taken reasonable measures, including, any measures required by any applicable Laws, to ensure that personal information used in the conduct of the Business is protected against unauthorized access, use, modification, or other misuse.

M&A - Privacy related Diligence

- Privacy related diligence typically involves:
 - *Buy Side*: Reviewing applicable privacy policies to ensure data transfer is permitted. Most should expressly permit transfers in a M&A context.
 - *Buy Side*: Ensuring industry specific rules permit the transfer (kids, money, health, EU, etc.) For these industries, it may make sense to have a conference with the Privacy Officer.
 - *Sell Side*: We always recommend hitting privacy head on, especially in the regulated industries or retail, uploading privacy policies to the data room and describe data collection and transfer issues.
 - *Sell Side*: Keep logs of any data security breaches, remediation efforts, and steps to prevent access in the future. These are more common than one would expect.

M&A - TSAs

- Transition Services Agreements; common in M&A transactions.
 - Often involve some of the most sensitive data that the company (employee data, customer data).
 - Involve a member of the privacy team early when discussing the TSA.
 - Could require an information security audit from Buyer (which is somewhat counter intuitive)
 - Think of them as an outsourcing or hosting deal...the issues are the same!

Biography



Doneld Shelkey

Pittsburgh

T +1.412.560.7727

doneld.shelkey@morganlewis.com

Doneld G. Shelkey represents clients in global outsourcing, commercial contracts, and licensing matters, with a particular focus on the e-commerce and electronics entertainment industries. Doneld assists in the negotiation of commercial transactions for domestic and international manufacturers, technology innovators, and retailers, and counsels clients in the e-commerce and electronics entertainment industries on consumer licensing and virtual property matters.



Ezra Church

Philadelphia

T +1.215.963.5710

ezra.church@morganlewis.com

Ezra D. Church regularly represents and counsels clients in privacy and cybersecurity matters. His work in this area includes representation of companies faced with class action litigation, government investigations, and he has advised hundreds of companies in connection with data breaches and privacy and data security compliance issues. He has earned designation as a Certified Information Privacy Professional (CIPP/US) with the International Association of Privacy Professionals and regularly speaks and writes on these topics.

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