



# SONY Pictures Entertainment - Hack of the Century

## Submitted to the 2016 Arthur Page Society Case Study Competition

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## Executive Summary

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On November 24th, 2014, Sony Pictures Entertainment (SPE) faced the worst corporate cyber-attack in the history of the United States. A rogue unit from North Korea, the Guardians of Peace (GOP), hacked SPE, and publically humiliated the company with the release of personal emails, unreleased movies, client's records and executive salaries. Eight total hacks and 38 million files stolen from SPE forced the company to its knees as it was threatened with acts of terrorism. As a result, Sony withdrew from a wide-release of their film *The Interview*. We examined the crisis communication strategies employed by Sony.

*“Well we could say thank you Sony for the long awaited release. However, your cowardice, revisionist history of your stance on the release, and overall bungled roll out of this film make me just want to say congratulations for doing something you should have done two weeks ago. I hope you learn from your PR disaster and I hope your leadership gets cleaned out for the New Year.” - Matt Saaverda, via Facebook on 12/24/14*

## Hacking Overview

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### Guardians of Peace

The Guardians of Peace (GOP) is a hacking group that gained notoriety when they hacked Sony Pictures Entertainment (SPE) on November 14th, 2014. Computers of Sony employees became inoperable when specific software was installed and a warning by GOP followed. The group sent an alarming message threatening the company that they would leak a large amount of confidential information unless certain requests were met. After the message was sent, the hacking group started publishing all types of files, documents, and confidential data. Information including unreleased movies, movie scripts, executive salaries, emails from company lawyers, employee complaints, and Hollywood celebrity information were among the nearly 100 terabytes of data stolen (Chumley, 2014). Then on December 5, 2014, the GOP sent out an email to employees threatening their families if they do not support the goals of the hackers (Figure 1).



Figure 1. Screen shot of GOP's warning message to SONY Corp.

The investigation that took place suggested that North Korea Government was in charge of the hacks taking place. Threats continued and it was determined that the movie *The Interview* was the cause of the whole scandal. The GOP posted a message threatening 9/11 type attacks on theaters that screen *The Interview*; therefore, Sony Pictures started

cancelling the release of the movie. Although identified as the sole culprit of this incident, North Korea continued to deny their involvement.

### The Interview

*The Interview*, which was released in 2014, is a satire comedy film, directed by Seth Rogen and Evan Goldberg. James Franco and Rogen play the two main characters in the film. In *The Interview*, Franco and Rogen are journalists that have obtained an interview with Kim Jong-Un, the leader of North Korea. After learning of this interview, the CIA recruits Franco and Rogen to assassinate Kim Jong-Un. Overall, this storyline created tense relations between the United States and North Korea, as the film poked fun at the leader and the beliefs of this country. When developing the idea for this movie, Rogen saw Kim Jong Il as the, “perfect villain,” for this movie. Rogen states his reasoning was, “Not just because of how unusual he was, but because no rational person would ever try to defend him” (Seal, 2015).

Sony Inc.

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### Sony Background

Sony Corporation (Sony) is a Japanese multinational conglomerate corporation. Sony is located in Tokyo, Japan with the U.S. Sony Corporation of America headquarters located in New York (Sony, n.d.). Sony’s mission statement says: “*at Sony, our mission is to be a company that inspires and fulfills your curiosity*” (“About Sony,” 2015).

Sony is considered one of the most comprehensive entertainment companies in the world. The principle businesses of Sony are categorized into six segments: Electronics and Mobile, Film and Television, Music, Games, Digital Services, and Other Businesses. SPE, which is included in the Film and Television sector, is responsible for motion picture production, television production, television networks, etc. (Sony, n.d.).

### Sony Pictures Entertainment

SPE is a 26-year-old company. It started with the purchase of Tri-Star and Columbia pictures from Coca-Cola in the late 80’s (Dick, 1992). Sony acquired Columbia Pictures in 1989 and the company was later renamed SPE (Company History, n.d.). Since 1990, SPE has been an international film and TV production/distribution company that also provides a variety of new entertainment products, services, and technologies (Bloomberg, 2015). SPE has been behind record-breaking films such as: *Men in Black*, *Spider-Man*, *Stuart Little*, *Black Hawk Down*, *Mr. Deeds*, and *The Da Vinci Code*. Also, the company has been a part of several award winning TV series like: *Seinfeld*, *The Dr. Oz Show*, and *Breaking Bad* (Company History, n.d.).

As one of Sony’s business units, SPE is hierarchically organized starting with the senior management team consisting of seven corporate executives, and among these corporate executives is the position of Executive Vice President (VP) and Chief Communications Officer (Sony Pictures, n.d.). According to Bond (2013), Charles Sipkins held this VP position starting in September of 2013. Sipkins specializes in crisis communication and more specifically, organizational reputation repair (Bond, 2013). However, McNary (2014) reported Sipkins departure from the company in early November 2014, and the company had no immediate replacement in line for his position.

In terms of communication channels, Sony reported their internal communication as being fostered by facilitating online town hall style meetings, open forum blogs,

luncheon meetings, and morning coffee with CEOs. Similarly, external communication with other stakeholders has gone digital, and is promoted by the use of social media (Facebook, Twitter, Instagram), and Sony official websites that provide archived press releases and live Internet chats (Sony, 2015).

## Sony Pictures Entertainment Market

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### Market and Industry Analysis

SPE faces consistent rivalries with three companies located in California, which include Warner Bros Entertainment, Buena Vista International, and Universal Pictures. Warner Bros is known for its substantial film and television production and distribution businesses and has been one of the world's most consistently successful movie studios ("Warner Bros," 2015). Therefore, it has major products that include motion pictures, television programs and video games. Another competitor, Buena Vista, is simply a division of Disney ("Disney," 2015). The last major competitor for SPE is Universal Pictures, which is one of the world's foremost movie and entertainment businesses ("Universal Studios," 2015).

While the economic downturn continues to take an increasing toll on the entertainment industry, resulting in a declining Gross Domestic Product (GDP) that has thus reduced the amount of discretionary consumer spending, new trends are still emerging (McKinsey & Company, 2014). New trends in social media, mobile devices, programming and micro-transactions are coming at rapid speed.

However, even with the industry thriving, there are a few crises and issues related to the industry. The current economic crisis, as recently stated, has affected companies around the world and in many industries. Due to the consumer demanding more control, the entertainment industry leaders are adapting and becoming more flexible (Austin, Elia, Reed, & Torries, 2011). This is because consumers are becoming increasingly selective in what they want to buy, and in general, their preference is moving more towards other options that are opposed to purchasing ("Perspectives," 2014).

### Market Growth

Sony has a plethora of sub-segments under its umbrella (See *Figure 2*). A major sub-segment, SPE is the fourth highest earning segment of the Sony just behind home entertainment, financial services and mobile products for 2014 (Marketline, 2015). With that, SPE is one of the highest earning segments of all of Sony with recorded revenue of \$8,286.7 million in the 2014 fiscal year, which ended in March 2014, eight months before the hack of Sony on November 24, 2014 (Marketline, 2015). As shown in *Figure 2*, SPE produces 10.8% of the total revenue for the corporation (Cervi, 2014).

Sony earned revenues of \$73,380 million in the fiscal year (See *Figure 3*). The company saw an increase of revenues from the previous year by 14.3% (Marketline, 2015). Sony's net loss was \$1,213 million in fiscal 2014, compared to a net income of \$392 million in the previous year (Marketline, 2015). Revenue from the pictures segment of the company recorded at approximately \$7.8 billion in the 2014 fiscal year (Marketline, 2015). Motion pictures accounted for 51% of the \$7.8 billion, television production accounted for 30% and media networks accounted for 19% (Marketline, 2015).

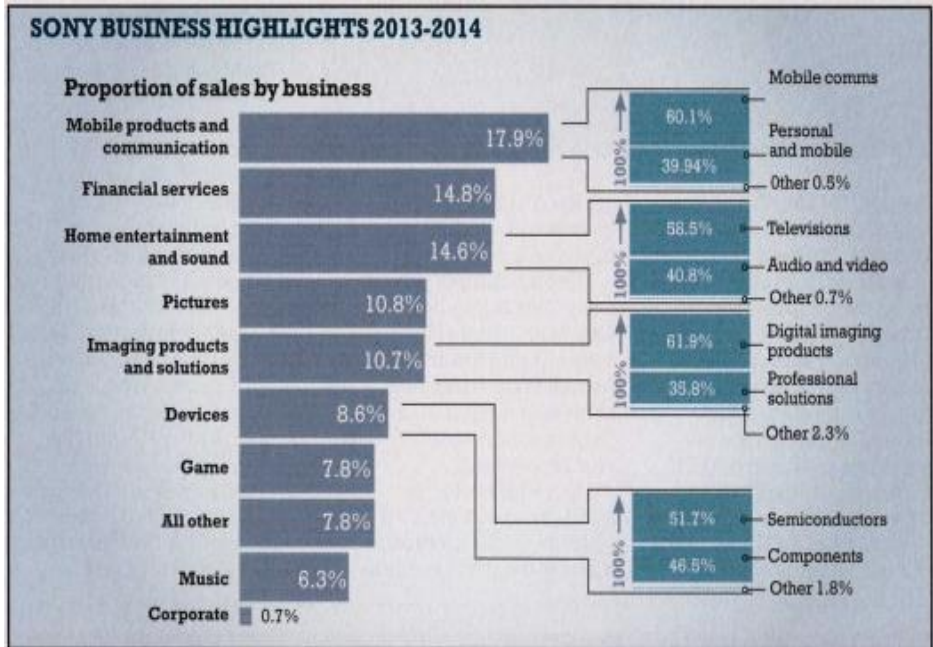


Figure 2. SONY’s Business highlights 2013-2014 (Cervi Database)

\$ million	2010	2011	2012	2013	2014
Revenues	68,153.0	67,843.9	61,342.3	64,199.4	73,379.9
Net income (loss)	(385.5)	(2,452.4)	(4,298.9)	392.4	(1,212.7)
Total assets	121,550.4	121,975.6	125,608.6	134,256.3	144,862.7
Total liabilities	90,510.7	94,181.3	101,894.6	108,984.7	118,530.6

SOURCE: COMPANY FILINGS MARKETLINE

Figure 3. Sony’s Net income (Marketline Database)

In 2013, SPE held the fifth spot in the highest grossing box office out of the major film studios in the world (Dietz, 2014). Sony was behind 20<sup>th</sup> Century Fox, Universal, Walt Disney and Warner Brothers. In the domestic market, SPE had a 9.7% share, which was down 36% from the previous year (Dietz, 2014). In the foreign market, SPE held a 15.6% share, which was down 29% from the previous year (Dietz, 2014). As for 2014, before the hack, SPE held a 12.31% market share domestically (Nash Information Services, 2014). This was almost a 3% higher domestic market share in 2014 than 2013.

In the weeks preceding the hack, Sony had an average volume on the NYSE of 00/1.95 million on November 17, 2014 (Marketwatch, 2014). Sony stocks opened at 20.19/share and closed at 20.26/share on November 17, 2014 (Marketwatch, 2015). The amount of SPE movie tickets sold domestically before the hack in 2014 was approximately 139,728,000 out of 1,268,323,368 total movie tickets sold (Nash Information Services, 2014). SPE has had 35 Academy Award winning films in categories such as Best Original and Adapted Screenplay, Best Foreign Film, Best Actor and Actress and Best Supporting Actor and Actress (Sony Pictures Classic, 2015). SPE, which just celebrated 25 years as a part of Sony Corporation, has

released 90 movies in the United States that have taken the number one spot in the box office (Blair, 2014). Though the company experienced significant setbacks in the recent years with two major hacks, SPE aimed to gross \$10 billion in sales a year by 2018 (Blair, 2014).

8 Hacks. 38 Million Files. (Timeline)

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#### **Message from GOP: November 24, 2014**

*“Hacked by #GOP. Warning: We’ve already warned you, and this is just a beginning, We continue till our request be met. We’ve obtained all your internal data including your secrets and top secrets. If you don’t obey us, we’ll release data shown below to the world.”*

#### **FIRST HACK: December 1, 2014**

- ✓ 24.87 GB of compressed files
- ✓ Over 3000 documents pertaining to employee information, such as: social security numbers, names, and copies of passport information.

#### **SECOND HACK: December 3, 2014**

- ✓ 1.18 GB of files with most sensitive data
- ✓ Full security certificate information, internal and external account credentials, authentication credentials with plaintext passwords for systems, UPS accounts.

#### **Message from GOP: December 5, 2014**

*“Please sign your name to object the false of the company at the email address below if you don’t want to suffer damage. If you don’t, not only you but your family will be in danger.”*

#### **THIRD HACK: December 7, 2014**

- ✓ 200 GB of files
- ✓ Financial information: banking statements, bank account information, financial year reports, budget reports
- ✓ Additional employee information

#### **MESSAGE FROM GOP: December 8, 2014**

*“We have already given our clear demand to the management team of SONY, however, they have refused to accept. It seems that you think everything will be well, if you find out the attacker, while not reacting to our demand. We are sending you our warning again. Do carry out our demand if you want to escape us. And stop immediately showing the movie of terrorism, which can break the regional peace and cause the War! You, SONY & FBI cannot find us.”*

#### **FOURTH HACK: December 8, 2014**

- ✓ 2.8 GB of files
- ✓ E-mail hack:
- ✓ Contents that include account information, passwords, personal emails, etc.
- ✓ Discussions about internal operations within Sony
- ✓ Amy Pascal’s e-mails

#### **FIFTH HACK: December 10, 2014**

- ✓ 5 GB of files
- ✓ Information about Sony’s anti-piracy efforts, entertainment deals in the works, internal procedures related to tracking torrents and other illegal downloading.
- ✓ Outlined Sony’s cooperation with five major Service Providers to collect full data for monitoring illegal downloads.

**MESSAGE FROM GOP: December 10, 2014**

*“To SPE employees: SPE employees! Don’t believe what the executive of SPE says. They say as if the FBI could resolve everything. But the FBI cannot find us because we know everything about what’s going on inside the FBI. We still have huge amount of sensitive information to be released including your personal details and mailboxes. If continued wrongdoings of the executives of SPE drive us to make an unwanted decision, only SPE should be blamed. Now is the time for you to choose what to do. We have already given much time for you.”*

**SIXTH HACK: December 10, 2014**

- ✓ 3.84 GB of files
- ✓ E-mail hack of Leah Weil, Senior Executive Vice President and General Counsel for Sony Pictures Entertainment.

**SEVENTH HACK: December 13, 2014**

- ✓ 6.45 GB of uncompressed data
- ✓ Sony internal documents
- ✓ The data consists of 6,560 files throughout 917 folders

**MESSAGE FROM GOP: December 13, 2014**

*“We are preparing for you a Christmas gift. The gift will be larger quantities of data. And it will be more interesting. The gift will surely give you much more pleasure and put Sony Pictures into the worst state. Please send an email titled by “Merry Christmas” at the addresses below to tell us what you want in our Christmas gift.”*

**EIGHTH HACK: December 14, 2014**

- ✓ 5.53 GB of uncompressed files
- ✓ E-mail hack of Steven O’Dell, Senior Vice President, International Distribution for Sony Pictures Releasing International
- ✓ 72,900 emails spread across 7 primary folders

**MESSAGE FROM GOP: December 14, 2014**

Message to SPE: *“The sooner SPE accept our demands, the better, of course. The farther time goes by, the worst state SPE will be put into and we will have Sony go bankrupt in the end.”*

Message to SPE Staffers: *“We have a plan to release emails and privacy of Sony Pictures employees. If you don’t want your privacy to be released, tell us your name and business title to take off your data.”*

**MESSAGE FROM GOP: December 16, 2014**

*“We will clearly show it to you at the very time and places The Interview be shown, including the premiere, how bitter fate those who seek fun in terror should be doomed to. Soon all the world will see what an awful movie Sony Pictures Entertainment has made. The world will be full of fear. Remember the 11<sup>th</sup> of September 2001. We recommend you to keep yourself distant from the places at that time. (If your house is nearby, you’d better leave.)”*  
*(“8 Hacks. 38 Million Files: Retrieved from Risk Based Security,” 2014)*



## Sony Pictures Response and Actions

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### Internal Strategies

SPE wanted to focus on daily operations and make employees feel safe. In order to do this, they relied on communication from top executives (Abdollah, 2015). To disseminate information, Sony executives relied on: word of mouth, paper memos, texts and phone calls from personal cell phones, temporary e-mail addresses, BlackBerrys found in the basement, Everbridge Emergency Notification System, meetings (twice daily meetings at 9 a.m. and 4 p.m.), and command centers set up. Along with these tactics, CEO Michael Lynton and co-chairman, Amy Pascal apologized to Sony employees at the studio's Culver City lot. Pascal spoke first and offered apologies and emphasized that racism is not tolerated at Sony. Her heartfelt remarks drew applause from the assembled employees. Lynton spoke second for 15 minutes and stated, *"I am incredibly sorry that you had to go through this. What has occurred at Sony is a systematic criminal attack on our staff and business,"* (Kilday & Siegel, 2014). In another attempt to ensure employees awareness, Amy Pascal and Michael Lynton issued a company-wide alert. This stated:

*"While we are not yet sure of the full scope of information that the attackers have or might release, we unfortunately have to ask you to assume that information about you in the possession of the company might be in their possession... We can't overemphasize our appreciation to all of you for your extraordinary hard work, commitment and resolve,"* (Kilday & Siegel, 2014).

Also, to foster company moral, Lynton ate lunch in Sony's commissary and opened his table to whoever wanted to sit and talk about the situation. In addition, through the use of internal and external department, Sony investigated the hacking. Sony's IT department worked to get basic systems, such as email, back up and running. In addition, Sony hired FireEye, Inc., a cybersecurity company, which provides threat forensics and dynamic malware protection against advanced cyber threats (Robb, 2014). They also worked with the Federal Bureau of Investigation (FBI) to investigate the breach and the possibility of North Korea's involvement. In order to assist employees, the FBI also set up certain rooms in order to conduct hour-long "clinics" about identity theft and computer security tips.

### External Strategies

One major external strategy that SPE attempted was to control and cease the distribution of confidential information. One strategy was the use of Sony's corporate lawyer, David Boies. Letters were sent to different media outlets, such as the *New York Times* and *Wall Street Journal*, demanding they destroy any data obtained from the cyber attack and cease reporting on their contents. The letter stated:

*"If you do not comply with this request, and the stolen information is used or disseminated by you in any manner, Sony Pictures Entertainment will have no choice but to hold you responsible for any damage or loss arising from such use or dissemination by you."* (Mellow, 2015)

Sony also shut down the thread, Sony GOP, on the website Reddit that was used to disseminate and discuss the leaked information from Sony. Along with this shutdown, Reddit users that continued to violate the American Digital Millennium Copyright Act on this site were blocked.

After the GOP 9/11 type threats, Sony implemented their second external strategy, by cancelling various releases of *The Interview*. SPE cancelled both the release of *The Interview* on

Christmas Day and the East Cost premiere in New York City. The official website for *The Interview* was also taken down and if people tried to reach the page it would re-direct users to a landing page for Sony's next movie. Social media pages related to *The Interview*, such Facebook and Twitter, were additionally removed.

Due to backlash received from various publics, SPE confirmed a limited release of *The Interview* as a last external strategy. Sony offered for any theater that wanted to show the movie the opportunity to screen it. As a result, 330 independent theaters in the U.S. showed the film. SPE also released the film on multiple online platforms such as Google Play, YouTube Movies, Microsoft's Xbox Video, and the website [www.seetheinterview.com](http://www.seetheinterview.com) on December 24, 2014.

## Stakeholders and Public Response

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### Hollywood

Hollywood reacted negatively to SPE's cancellation of their wide release of *The Interview*. From directors to actors to studios, Sony became an infamous household name. After the three biggest movie theatre chains, AMC, Regal and Cinemark all backed out, Hollywood voiced their outcries on social media (BBC, 2014). As figure 5 shows, the biggest influencers who took their disgust to social media were Rob Lowe, who made in appearance in *The Interview*, Judd Apatow, Zach Braff, and Amy Schumer (BBC, 2014).



Figure 5. Tweets of actors and actresses in *The Interview*

### Media

During the November 2014 hack on SPE, the media were constantly reporting on the leaked documents of information pertaining to all of Sony's "secrets." Those media include every major news outlet from the *New York Times* and *Washington Post* to *CNN*, *Huffington Post*, *Fortune*, and *Forbes*. The website that broke the story was [business2community.com](http://business2community.com), with their first article titled, "Hackers Shut Down SPE Corporate Network," at around 2 p.m. the day of the hack (Bazzle, 2014). Next Reddit World News tweeted "Sony Pictures Hacked" with a link to the [business2community](http://business2community.com) website at 2:51 p.m. and other news outlets caught on (Southern California Public Radio, 2015).

## Government

*The Interview* became a matter of national security when the GOP sent threatening messages to Sony saying that they were going to attack any theater that was showing the movie. President Obama, upset with the surrender of Sony, rallied his top White House officials in the situation room. They decided to name North Korea responsible and vowed to punish them (Nakashima, 2015). The limitation of Sony's freedom of expression and strict policy the U.S. on not negotiating with terrorists is what ultimately led the Obama administration to impose new economic sanctions against several North Korean (Roberts, 2015).

Once the FBI announced that North Korea was responsible for this attack, Obama made a statement at a news conference saying, "I am sympathetic to the concerns that they face. Having said all that, yes, I think they made a mistake" (Perez, Sciutto, Diamond, 2014). Obama continues to say, "We cannot have a society in which some dictators someplace can start imposing censorship here in the United States." On December 23, North Korea experienced a 9.5-hour Internet outage that it blamed the United States but White House officials denied involvement (NBC News, 2014).

## Employees

Employees were major participants within the scandal from the start. Soon after the "screen of death" flashed across computer screens at Sony studio, chaos and confusion ensued, as the news broke that employee personal information was potentially vulnerable to hackers. The Internet revealed the personal information of more than 3,800 Sony employees (Roose, 2014). Workers scrambled to protect themselves by purchasing identity protection, altering all passwords, setting up bank alerts, and changing passports (Marikar, 2014). Days dragged on as employees were continuously working without computers, email, and voicemail.

Throughout all of the chaos, SPE provided the identity protection, All Clear ID, for their employees after the hack. Employees lined up on the studio lot to sign up for identity protection and to receive new login credentials and phones (Seal, 2015) and links were provided on the SPE website for employees who had questions and concerns (Elkind, 2014). Both Lynton and Pascal provided messages of perseverance and support to the workers, which gained positive feedback from employees (Mandell & Weise, 2014). However, some employees were not satisfied with the company's efforts to protect their personal information (Marikar, 2014).

## North Korea

The first reports surfaced on November 28, 2014, that Sony suspected North Korea was responsible for the attack. It was not until December 17, 2014 that a U.S. official confirmed North Korea's involvement in the hack of SPE. Two days later the FBI backed up this claim. However, North Korea continued to deny the allegations.

## Lawsuits

In December, 2014, a class-action lawsuit was filed by ex-employees against Sony, claiming negligence of data protection, which enabled the November data breach. The lawsuits claimed between 15,000-47,000 employees have been affected by the hack and deserve retribution. The complaint also suggested that Sony should have been more prepared for a cyber-attack because the company has been hacked several times before in 2011 and earlier in 2014 (Ellis, 2014).

As of November 25, 2015, a judge approved a settlement in the case of up to \$8 million from Sony to current and ex-employees. The settlement would obligate Sony to pay up to

\$10,000 per employee for financial losses and credit-fraud protection services. The ultimate settlement for the case will not be finalized until March of 2016 (Associated Press, 2015).

### Financial Aftermath

*The Interview* had an estimated production budget of \$44 million, a marketing budget of \$32 million, and a projected box office gross of \$135 million (Elkind, 2015). The film grossed \$6,105,175 between 330 limited release theaters in the United States and grossed an overall total of \$11,305,175 worldwide at the box office (Box Office Mojo, n.d.). As of January 7, 2015, *The Interview* has brought in over \$31 million in online streaming revenue, making it Sony Pictures' number one online film of all time (Smith, 2015).

However, Sony is estimated to lose at least a \$100 million based on costs for new software, ID protection, employee labor, lawsuit settlements, and reputational damage (Shaw, 2014). Stolen films released online by hackers like *Annie* and *Fury* may result in an \$82 million write off in film assets for the company alone (Shaw, 2014).

While Sony tried to salvage *The Interview* by accruing some profit and break even, Sony also used the hack to experiment with large scale video-on-demand and streaming distribution rather than strictly traditional theatrical releases (Rosenfeld, 2014).

### Related Incident

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#### PlayStation Hack

Sony endured a similar attack in April of 2011, as its online gaming network including, PlayStation Network, Sony Online Entertainment, and Qriocity were hacked by LulzSec. As a consequence, the gaming system was shut down between April 20 and May 15 (Gaudiosi, 2014). The data breach left 77 million customers' personal information vulnerable to hackers, including credit card numbers (Pepitone, 2011). Several lawsuits were filed against Sony, which sought restitution claiming the company was negligent with personal data and took an excessive amount of time to notify customers of the security breach (Kerr, 2012). Sony reported spending \$171 million to clean up after the 2011 hack (Gaudiosi, 2014).

### Reflection

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Sony's company information has been compromised in the past; however, no hack has reached a magnitude of this scale. Through the strategies and tactics developed after the incident, it was revealed that Sony was not prepared. Sony dealt with the leak of profitable films, but also the leak of thousands of employee personal information. They have also received backlash and have been accused of giving into terrorism, even though North Korea refused to take responsibility.

Along with the 2011 hacks, Sony was warned of the possible repercussions *The Interview* could entail (Elkind, 2015). According to Elkind, before shooting the film, Rogen and Goldberg brought the script to McLarty, a consulting firm that advises Hollywood on stick geopolitical problems. The consulting firm advised Rogen and Goldberg to expect retaliation from North Korea, possibly in the form of an electronic assault. The firm urged Sony to change their banking and email passwords, while closely monitoring their Internet accounts. The firm also passed on the name of a cybersecurity adviser, which Sony did not utilize. Rather than strengthening its network defenses to prevent this retaliation, Sony instead focused on attempting to offend the North Koreans less with *The Interview*. For instance, Sony spent \$550,000 to digitally alter images of Kim family members shown on a wall mural and jacket pins worn by movie characters. This money could have been used towards the hardening of cybersecurity. To

take even further action, Sony should have lessened the offense to North Korea while simultaneously creating more defense in their networks.

Overall, the financial loss cannot compare to the loss of trust in the company by employees, Hollywood, and the U.S. Government.

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