

Sony cyberattack may be costliest ever (Update)

December 18 2014, by Bernard Condon, Eric Tucker And Mae Anderson



This photo provided by Columbia Pictures - Sony shows, Randall Park, center, as North Korean leader Kim Jong Un in Columbia Pictures' "The Interview." North Korea has been linked to the unprecedented act of cyberwarfare against Sony Pictures that exposed tens of thousands of sensitive documents and escalated to threats of terrorist attacks that ultimately drove the studio to cancel all release plans for "The Interview." (AP Photo/Columbia Pictures - Sony, Ed Araquel)

The unprecedented hack of Sony Pictures which a U.S. official says is

linked to North Korea may be the most damaging cyberattack ever inflicted on an American business.

The fallout from the hack that exposed a trove of sensitive documents, and this week escalated to threats of terrorism, forced Sony to cancel release of the North Korean spoof movie "The Interview." The studio's reputation is in tatters as embarrassing revelations spill from tens of thousands of leaked emails and other company materials.

Federal investigators believe there is a connection between the Sony hack and the isolated communist nation, according to an official who spoke on condition of anonymity. The official was not authorized to openly discuss an ongoing criminal case.

North Korea has denounced the "The Interview" but earlier this month said the hack might have been carried out by sympathizers. The movie features a pair of journalists played by James Franco and Seth Rogen who are asked by the CIA to assassinate North Korea's leader Kim Jong Un.

The attack is possibly the costliest ever for a U.S. company, said Avivah Litan, a cybersecurity analyst at research firm Gartner. "This attack went to the heart and core of Sony's business and succeeded," she said. "We haven't seen any attack like this in the annals of U.S. breach history."

A besieged Sony on Wednesday cancelled the Christmas Day release of the film, citing threats of violence by the hackers and decisions by the largest multiplex chains in North America to pull screenings. The hackers, who call themselves Guardians of Peace, had made threats of violence reminiscent of September 11th, 2001 if movie theatres showed the film.

Sony later said it has "no further release plans for the film."

"We are deeply saddened at this brazen effort to suppress the distribution of a movie," Sony Pictures said in a statement.

National Security Council spokeswoman Bernadette Meehan said the U.S. government had no involvement in Sony's decision. She said artists and entertainers have the right to produce and distribute whatever content they want in the U.S.

John McCain, a Republican senator from Arizona, called Sony's decision to cancel the movie a "troubling precedent that will only empower and embolden bad actors to use cyber as an offensive weapon even more aggressively in the future."

How much the cyberattack will ultimately cost Sony is unclear. Sony faces trouble on several fronts after nearly four weeks since the hackers first crippled its computer systems and started dumping thousands of emails and private documents online.

In addition to vanishing box-office revenue from "The Interview," leaked documents could muck up production schedules, experts say. There will be the cost of defending the studio against lawsuits by ex-employees angry over leaked Social Security numbers and other personal information. And then there are actors who might decide to work at another studio.

Beyond the financial blow, some say the attack and Sony's capitulation has raised troubling questions about self-censorship and whether other studios and U.S. companies are now also vulnerable.

"Artistic freedom is at risk," said Efraim Levy, a senior financial analyst at research firm S&P Capital IQ. "Are we not going to put out movies that offend some constituencies?"

A breakdown of areas where Sony may suffer damage:

BOX OFFICE LOSSES

With a modest budget of about \$40 million, "The Interview" had been predicted to gross around \$30 million in its opening weekend. Doug Stone, president of film industry newsletter Box Office Analyst, forecast that Sony could have grossed \$120 million in U.S. and foreign box office revenue from the film. It has already spent tens of millions on marketing.



A poster for the movie "The Interview" is taken down by a worker after being pulled from a display case at a Carmike Cinemas movie theater, Wednesday, Dec. 17, 2014, in Atlanta. Georgia-based Carmike Cinemas has decided to cancel its planned showings of "The Interview" in the wake of threats against theatergoers by the Sony hackers. (AP Photo/David Goldman)

But Stone said the losses represent a single movie flop, than a spreading corporate disaster. Revenue from Sony Corp.'s "pictures" business totaled 830 billion yen (\$7 billion) last fiscal year.

"Disney wrote down \$200 million on the "Lone Ranger" and didn't bat an eye," he said of the rival studio. "So while it would be a significant hit, it certainly wouldn't cause a financial collapse."

STIRRED OR SHAKEN?

A leaked script of the Sony's upcoming James Bond film "Spectre" led to an online frenzy of articles warning readers of "major spoilers."

Seth Shapiro, a professor at the University of Southern California's School of Cinematic Arts, thinks the potential damage from a hit to the blockbuster franchise is big.

"How can they proceed if everyone in the audience has already read the script?" he said. "You basically need to start over and see how much you can salvage."

Others disagreed, noting that people flooded to movies like "Titanic" though everyone knew the ending. And they question how many people would pore through details of the script anyway.

"Most people don't read scripts," said veteran publicist Howard Bragman. "The Bond movie is going to do just fine."

FLEEING TALENT?

It's not yet clear if the leaks of sensitive emails will cause agents and top actors to think twice about working with Sony.

In the short term, some think it may hurt, not only because of the insults directed at stars such as Angelina Jolie, but because the massive leak hurts prestige and indicates Sony is not being run as well as it should, said Shapiro.

"Is Sony going to be the place of first resort for Hollywood A-List? No. Not tomorrow."

Others say business interests will trump ego.

"Studio people are always saying negative things about talent," said Gene Del Vecchio, a marketing professor at University of Southern California's Marshall School of Business. "Ultimately it's about business," he said. "That will outweigh the insults."

But all bets are off if Sony decides to reshuffle the top executives at the studio. Some have speculated that co-chair Amy Pascal's job might be in jeopardy due to the insensitive nature of some of her remarks in emails.

In an industry based on relationships, major changes at the top can affect projects for years, said Larry Gerbrandt, a principal at entertainment consulting firm Media Valuation Partners.

"If the fallout leads to large scale changes at the senior executive level it will have a ripple effect for several years since it brings to halt most movies currently under development."

Projects have to be written off, replacement executives hired—who will have their own ideas of what movies should be made—and the costs could easily get into the hundreds of millions of dollars, he said.

LEGAL WOES

Earlier this week, four former employees sued Sony for not protecting their private information from hackers. The lawsuits seek class-action status on behalf of the nearly 50,000 Sony Pictures employees whose Social Security numbers and other private data was exposed.

Legal experts said the cases are likely just two of many that will be filed over the data breach. A review of 32,000 emails from the inbox of Sony Entertainment CEO Michael Lynton that were dumped by the hackers on Monday showed the studio suffered significant technology outages it blamed on software flaws and incompetent technical staffers. Hackers targeted executives to trick them into revealing their online credentials.

The files expose lax Internet security practices inside Sony such as pasting passwords into emails, using easy-to-guess passwords and failing to encrypt especially sensitive materials such as salary and revenue figures, strategic plans and medical information about some employees. Experts say such haphazard practices are common across corporate America.

Sony potentially faces tens of millions of dollars in damages from a class-action lawsuit, said Jonathan Handel, an entertainment law professor at the University of Southern California Gould School of Law.

"This doesn't look good for Sony, which after all is a technology company," Handel said.

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