AS OUR INCREASINGLY digital world encompasses everything from banking to birthdays, the personal information available on Web sites and stored in electronic databases continues to grow exponentially. Many of us have the intimate details of our lives stored in online databases, including our addresses, phone numbers, birth dates, Social Security numbers, credit card and bank account information, and Web site user names and passwords. All this data is vulnerable to theft, through means as simple as stealing the hardware on which the data is stored or through complex, remote cyber-theft by sophisticated hackers.

In the past few years, the frequency of data security breaches has skyrocketed. One estimate puts the number of records breached since 2005 at over 500 million. Some of the largest security breaches occurred at:

- TJX Company, with an exposure of 45 million customer credit and debit card account numbers.
- TD Ameritrade, involving 6 million files of customer contact information.
- The Gap, unveiling the private information of over 750,000 job applicants.
- Starbucks, revealing the private information of over 97,000 Starbucks employees.
- Citibank, involving the potential exposure of names, account numbers, and contact information for 360,000 credit card customers.
- Sony, with a potential compromise of the confidential account and financial information of 144 million Sony PlayStation, Qriocity, and Sony Online Entertainment Network users, including over 1 million unencrypted credit card numbers.

When consumers’ personal information is breached, they face an immediate and immeasurable injury involving the loss of security.

Plaintiffs have been increasingly successful in gaining injunctive relief for online security breaches.

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increased risk of identity theft, and potential invasion of privacy. With the loss of security, consumers may suffer emotional distress worrying about lost privacy and identity risks. They may spend money and time to forestall these dangers by purchasing credit monitoring services, monitoring credit and bank accounts, and seeking to cancel current debit and credit cards. They also may lose opportunities due to unavailable credit or a decline in their credit ratings. Businesses, too, suffer enormous losses whenever sensitive and confidential company data has been breached. Damages arising from the exposure of confidential corporate financial and business information can be enormous, not to mention the potential liability that arises when confidential consumer or employee information maintained on a company’s system is breached.

Courts have tried to apply traditional damage models in assessing these damages, with mixed results. A number of courts have turned to the economic loss doctrine in analyzing injuries from potential identity theft, finding that plaintiffs are barred from recovery for alleged breach of tort duties when a contractual relationship exists between the plaintiff and the defendant and the losses are purely economic. Other courts are finding that the dangers and risks associated with exposing a plaintiff’s private and personal information to hackers may be cause to expand the parameters of online security breach liability. Courts appear increasingly willing to offer at-risk plaintiffs what they really seek—security.

This trend first emerged when courts analyzed the reach of Article III of the U.S. Constitution to cases involving a breach of online security. Federal courts have an independent obligation at the outset of every case to ensure the plaintiff has standing. Along with causation and redressability, one of the key elements of standing is injury-in-fact. A plaintiff must show that he or she “has suffered an ‘injury in fact’ that is (a) concrete and particularized and (b) actual or imminent, not conjectural or hypothetical.” This requirement is an important issue in data breach cases when the plaintiff alleges harm based on the increased risk of identity theft that arises from the breach.

The courts that have addressed the standing issue are split. Some find the risk of future harm to be enough to meet the injury-in-fact test, while others do not. The Seventh Circuit first recognized standing based on this type of alleged injury in 2007 in Pisciotta v. Old National Bancorp, with the Ninth Circuit following suit in 2010 in Krottner v. Starbucks Corporation. Both the courts in Pisciotta and Krottner found that an act that harms the plaintiff only by increasing the risk of future harm to the plaintiff is enough to confer standing.

The courts reached this result by relying on a line of cases finding injury-in-fact in analogous situations in which the defendant’s actions had increased the plaintiff’s risk of future harm, including exposure to toxic substances, the use of a defective medical implant, environmental harms, and even an increase in discretion given to an ERISA plan administrator. The Ninth Circuit also cited Doe v. Chao, in which the Supreme Court found Article III standing based on the plaintiff’s allegation that he “was torn...
MCLE Test No. 211

The Los Angeles County Bar Association certifies that this activity has been approved for Minimum Continuing Legal Education credit by the State Bar of California in the amount of 1 hour.

1. Over the past five years, the frequency of data security breaches has decreased.
   True
   False.

2. Pursuant to Article III of the U.S. Constitution, a plaintiff has standing in federal court if the plaintiff has suffered an “injury in fact” that is “concrete and particularized” and “actual or imminent.”
   True
   False.

3. The Seventh Circuit was the first circuit to recognize Article III injury-in-fact based upon risk of future harm caused by a data breach.
   True
   False.

4. All circuits have followed the Seventh Circuit finding that a data breach that harms a plaintiff only by increasing the risk of future harm is enough to confer Article III standing.
   True
   False.

5. Plaintiffs have brought claims for increased risk of identity theft due to data breach under various theories except:
   A. Negligence.
   B. Defamation.
   C. Unfair consumer practices.
   D. Breach of contract.
   True
   False.

6. The Sixth Circuit has stated that waiting for a plaintiff to suffer injury before allowing any legal recourse may be harsh and economically inefficient.
   True
   False.

7. Courts have held that plaintiffs who have been exposed to health or medical risks are entitled to medical monitoring, even when the plaintiffs have not yet shown physical harm.
   True
   False.

8. The Ninth Circuit considered—but did not grant—monitoring relief to data breach plaintiffs in Stollenwerk v. Tri-West Health Care Alliance.
   True
   False.

9. Emotional distress damages are typically not available in contract cases even when actual harm is proved.
   True
   False.

10. More than 40 states have passed laws that create a civil cause of action for failure to secure data.
    True
    False.

11. Texas enacted the first data breach security law.
    True
    False.

12. The California Security Breach Information Act does not require businesses to notify consumers when their data has been breached.
    True
    False.

13. Illinois expressly allows for recovery of economic losses in data breach cases by deeming a violation of the state’s data breach statute to also be a violation of the Illinois Consumer Fraud and Deceptive Business Practices Act.
    True
    False.

14. Which state recently considered a bill that would allow “any person who is affected by a security breach that creates a risk of harm of identity theft” to sue for actual or statutory damages?
   A. Montana.
   B. New York.
   C. California.
   D. Hawaii.
   True
   False.

15. California recently passed a bill that requires restitution payments from criminal defendants to data breach victims.
    True
    False.

    True
    False.

17. The HITECH Act allows covered entities to wait up to a year before notifying individuals whose “protected health information” has been breached.
    True
    False.

18. The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs to provide free credit monitoring to parties affected by a data breach if there is a “reasonable basis” for misuse of the information.
    True
    False.

19. In data breach settlements approved by courts over the past few years, the relief includes free credit monitoring services to at risk parties and identity theft funds to reimburse losses and related expenses stemming from the security breach.
    True
    False.

    True
    False.

MCLE Answer Sheet #211

INTO THE BREACH

Name ____________________________

Law Firm/Organization ____________________________

Address ________________________________________

City ______________ State/Zip ______________

E-mail ________________________________________

Phone ________________________________________

State Bar # ____________________________

INSTRUCTIONS FOR OBTAINING MCLE CREDITS

1. Study the MCLE article in this issue.

2. Answer the test questions opposite by marking the appropriate boxes below. Each question has only one answer. Photocopies of this answer sheet may be submitted; however, this form should not be enlarged or reduced.

3. Mail the answer sheet and the $20 testing fee ($25 for non-LACBA members) to: Los Angeles Lawyer MCLE Test P.O. Box 55020 Los Angeles, CA 90055

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ANSWERS

Mark your answers to the test by checking the appropriate boxes below. Each question has only one answer.

1. □ True □ False

2. □ True □ False

3. □ True □ False

4. □ True □ False

5. □ A □ B □ C □ D

6. □ True □ False

7. □ True □ False

8. □ True □ False

9. □ True □ False

10. □ True □ False

11. □ True □ False

12. □ True □ False

13. □ True □ False

14. □ A □ B □ C □ D

15. □ True □ False

16. □ True □ False

17. □ True □ False

18. □ True □ False

19. □ True □ False

20. □ True □ False

Los Angeles Lawyer February 2012 29
The Ninth Circuit has considered this type of monitoring relief. In Stollwerk v. Tri-West Health Care Alliance, the plaintiffs alleged that the defendant failed to secure their personal information when burglars broke into the defendant’s headquarters and stole equipment and hardware, including computers on which the plaintiffs’ personal information was stored. The court noted that “one [might] apply[] a similar [medical monitoring] standard to determine the availability of damages for the cost of credit monitoring in instances of exposure of personal information.” However, under the particular facts of that case—the only proof of personal data exposure was the burglary, which involved “a range of hardware...not just the servers containing customers’ personal information,” and there was “no evidence the thieves had any interest in their personal information, rather than just the hardware”—the court held that “the risk of identity theft...was low,” so the plaintiffs could not recover.

In contrast, a number of the more recent security breaches involve intrusion directly into the databases containing users’ personal data, so the risk of identity theft or other misuse is high. Credit monitoring is the ideal relief in these situations.

**Contract Damages**

Contract-based claims have faced a similar dilemma. Like the requirements for tort claims, some courts have held that plaintiffs must prove actual damages resulting from the alleged breach. Contract damages are typically even more limited than tort damages. The usual relief is to give the aggrieved party the benefit of his or her bargain. Emotional distress damages are generally not available in contract cases even when actual harm is proved. Some courts analyzing contract claims have found that, as with negligence claims, the increased risk of identity theft does not give rise to compensable damages.

Nevertheless, contract claims have not been completely barred in security breach cases. In a suit against AOL for the disclosure of users’ search histories, a federal district court upheld a number of California statutory claims on a motion for judgment on the pleadings. The court found that the plaintiff’s purchase of AOL’s services, coupled with AOL’s failure to provide what was bargained for—keeping the plaintiffs’ information private—proved sufficient to sustain the claims. In another case involving Unicare Life and Health Insurance’s breach of its customers’ private information, numerous claims, including breach of implied contract, survived a motion to dismiss. The plaintiffs’ injuries involving severe emotional distress, increased risk of future harm, credit monitoring, and harm to their possessory interest in their personal health information met the federal pleading standard.

Last year, U.S. District Court Judge Phyllis J. Hamilton in the Northern District of California allowed claims for breach of contract and negligence based on the potential for identity theft to proceed in Claridge v. RockYou, Inc. Defendant RockYou, a developer of online services, allegedly failed to secure and protect its users’ sensitive personally identifiable information, including email addresses, passwords, and login credentials. The plaintiffs brought a number of claims. The state statutory claims were struck down, but the breach of contract, breach of implied contract, and negligence claims were not. Specifically, the court held that the “plaintiff has sufficiently alleged a general basis for harm by alleging that the breach of his [personally identifiable information] has caused him to lose some ascertainable but unidentified ‘value’ and/or property right inherent in the [personal information].” Judge Hamilton’s decision opens the door for other judges to follow suit.

**Statutory Damages**

Statutory-based claims generally require lost money or property damages or some other tangible form of injury. However, many statutes do not require a showing of actual damages. No state has yet passed a statute giving rise to statutory damages based specifically on the increased risk of identity theft from a data breach, but this type of law may be enacted in the future.

Legislation is beginning to play a role in the area of damages for data breaches. Many states have passed laws that create a civil cause of action for failure to secure data. The first law of this kind, which served as a model for many other state laws, was California’s Security Breach Information Act (California SBIA). Passed in 2003, the California SBIA imposes on businesses a duty of notification to those who suffer an unauthorized intrusion into their personal data. At least count, there are 46 states—as well as Washington, D.C.; Puerto Rico; the U.S. Virgin Islands; and New York City—that impose a duty of notification when a security breach has occurred. The California SBIA also contains a data protection obligation and expressly authorizes the maintenance of a suit for damages for breach of that duty—another trend followed by other states in their laws. However, these laws provide no guidance on what damages are available. Moreover, other states with notification statutes do not provide for private causes of action, while others only assess civil penalties.
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AGENDA
MORNING
Commercial Real Estate Markets in the U.S.: Value Trends, Capital Markets, and Managing Risk
• The California Economy and Future Trends in Real Estate Investment • Using Available Land Use Tools to Thrive in Uncertain Times • Office and Retail Lease Protections for Landlords and Tenants • The Peaks and Valleys in the Investment Landscape of California • Bonus Breakfast Session: Career Options After Ten Years of Practice

AFTERNOON
Luncheon Keynote by USC Law Professor Edward McCaffery • What’s Going on in Redevelopment • Practical Tips for Maximizing the Benefits of a CMBS Financing • Is Chapter 11 a Viable Option for Real Estate Companies? • CEQA Reform in 2011 and the Future • Opportunities for Hotels in a Volatile Market • Outlook for Investments in Distressed Debt • Quick Hits on Hot Topics

CLOSING
“Meet the Speakers and Network” Annual Wine and Cheese Reception

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• Eric Paulsen • Chip Sellers • Troy Senik • Kevin Shannon • Sabeth Siddique • Patricia Sinclair
• Glenn Sonnenberg • Lawrence Souza • John Tamny • Jason Thomas • Christopher Thornberg
• Thomas Whitesell • Homer Williams • William Witte • plus dozens of other real estate stars!
At least one state, Illinois, allows for recovery of economic losses in data security cases by expressly providing that a violation of the state’s data breach statute is deemed to also be a violation of the Illinois Consumer Fraud and Deceptive Business Practices Act.49 The Illinois Deceptive Trade Practices Act permits a “person who suffers actual damage...[to recover] actual economic damages or any other relief which the court deems proper,” including “reasonable attorney’s fees and costs.”50 This still requires actual damages but allows for recovery upon merely a showing of economic loss.

No state to date has passed a law providing for statutory damages without a showing of actual damages from identity theft. Early in 2011 Hawaii considered a bill that would authorize “any person who is affected by a security breach that creates a risk of harm of identity theft” to sue for actual or statutory damages.51 Nevertheless, its future is unclear. A bill was passed in 2011 in California that requires restitution payments from criminal defendants to their identity theft victims, including credit report monitoring and credit repair costs.52 These bills may indicate a trend toward potential statutory relief for victims of the increased risk of identity theft.

Federal security breach laws are not far behind. The American Recovery and Reinvestment Act of 2009 includes a nationwide data breach notification law as part of its Health Information Technology for Economic and Clinical Health Act (the HITECH Act).53 The HITECH Act requires entities covered by the statute to immediately notify individuals whose “protected health information,” including medical records and other individually identifiable health information, has been breached.54 Both the Department of Health and Human Services and the Federal Trade Commission have issued rules or regulations designed to implement the notification requirements of HITECH.55

The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs to provide notice to veterans of a breach of their personal data. Moreover, the department also must 1) notify law enforcement and certain congressional committees when a data breach occurs, 2) perform a risk analysis if unauthorized access to sensitive personal information occurs, and 3) notify and provide free credit monitoring to those affected if there is a “reasonable risk” for misuse of the information.56

A number of other bills have been introduced in Congress that would require companies to safeguard sensitive personal data and notify consumers about data security breaches.57 Consistent federal legislation providing statutory relief for victims of increased risk of identity theft may be following soon.

Injunctive Relief

Presuming that courts and statutory law continue to move toward remedying injured data breach victims, what is the proper form of relief? When plaintiffs’ private information has been exposed, putting them at risk of identity theft, the primary relief that plaintiffs seek is security. In the handful of data breach settlements approved by courts over the past few years, the parties and the courts (in approving the settlements) have consistently found that the best way to remedy the risk of identity theft is to provide injunctive relief. This involves free credit monitoring services to attract parties along with identity theft insurance or funds to reimburse identity theft losses and related expenses that stem from the security breach. These remedies rectify immediate damages to plaintiffs who have already suffered identity theft from the breach as well as provide protection to plaintiffs who are at risk for identity theft. In some cases, the relief also will cover future damages to plaintiffs who experience identity theft after the settlement.58

For example, in the Countrywide breach litigation settlement, class members were offered two years of credit monitoring and identity theft insurance, as well as reimbursements of out-of-pocket expenses resulting from the theft of their private information (such as costs for replacement checks, driver’s licenses, and the like) and reimbursement for losses from identity theft. This relief was contingent on the loss being actual and not already reimbursed and more likely than not a result of the alleged theft of private information through Countrywide’s breach.59 The court approved this settlement, noting that it “offers a reasonable resolution that properly addresses the tricky issues presented by data breaches.”60

The court approved similar relief in the TJX breach case.61 In the TD Ameritrade litigation, the court rejected two settlements but has approved a third settlement that sets up a fund to pay for identity theft claims.62 Courts in these settled cases have viewed the provision of credit monitoring services and funds for payment of future losses to be adequate forms of security to ensure that the harmed plaintiffs can recover for their losses. These settlements illustrate the type of injunctive relief judges should consider in security breach cases moving forward.

The RockYou holding may be the beginning of a move toward an expanded understanding of damages in these cases. In addition, the security monitoring injunctive relief approved by multiple courts in settlements suggests that the threat of identity theft is a remediable injury with concrete available relief.

Plaintiffs seeking to recover money damages based solely on the increased threat of future identity theft and their accompanying expenses incurred in increased monitoring have faced a tough battle in the courts. The damage requirements of tort and contract law, as well as many statutes, have prevented a number of claims from proceeding. At the same time, no clear consensus and no authoritative decision preclude these cases, and some courts have shown a willingness to move away from traditional damage models to remedy untraditional security breach injuries.

The RockYou holding may be the beginning of a move toward an expanded understanding of damages in these cases. In addition, the security monitoring injunctive relief approved by multiple courts in settlements suggests that the threat of identity theft is a remediable injury with concrete available relief. This is a burgeoning area of law that will play out in courtrooms and legislatures in the years to come.

2. Id.; In re Sony Gaming Networks & Customer Data Sec. Breach Litig., MDL No. 11-2258 (S.D. Cal. 2011); Krotter v. Starbucks Corp., 628 F. 3d 1139, 1140 (9th Cir. 2009).
9, 2010).


27 Id.

28 Id.

29 Id.


31 See McAfee v. Wright, 651 A. 2d 371, 372-73 (Me. 1994).

32 Id. at 1111-12.


35 Id. at 865.

36 Id. at *4-9.

37 Id.


40 See GV. CODE §§1798.80 et seq.

41 See, e.g., COLO. REV. STAT. §6-1-716 (2011).


43 815 ILL. COMP. STAT. 505/3 et seq. (2011).

44 815 ILL. COMP. STAT. 505/10a (2011).


48 Id.

49 Id.

50 Id.

51 Id.

52 Id.

53 Id.

54 Id.

55 Id.

56 Id.

57 Id.

58 Id.

59 Id.

60 Id.

61 Id.

62 Id.

63 Id.

64 Id.

65 Id.

66 Id.

67 Id.

68 Id.

69 Id.

70 Id.

71 Id.

72 Id.

73 Id.

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108 Id.

109 Id.

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111 Id.

112 Id.

113 Id.

114 Id.

115 Id.

116 Id.

117 Id.

118 Id.

119 Id.

120 Id.

121 Id.

122 Id.

123 Id.